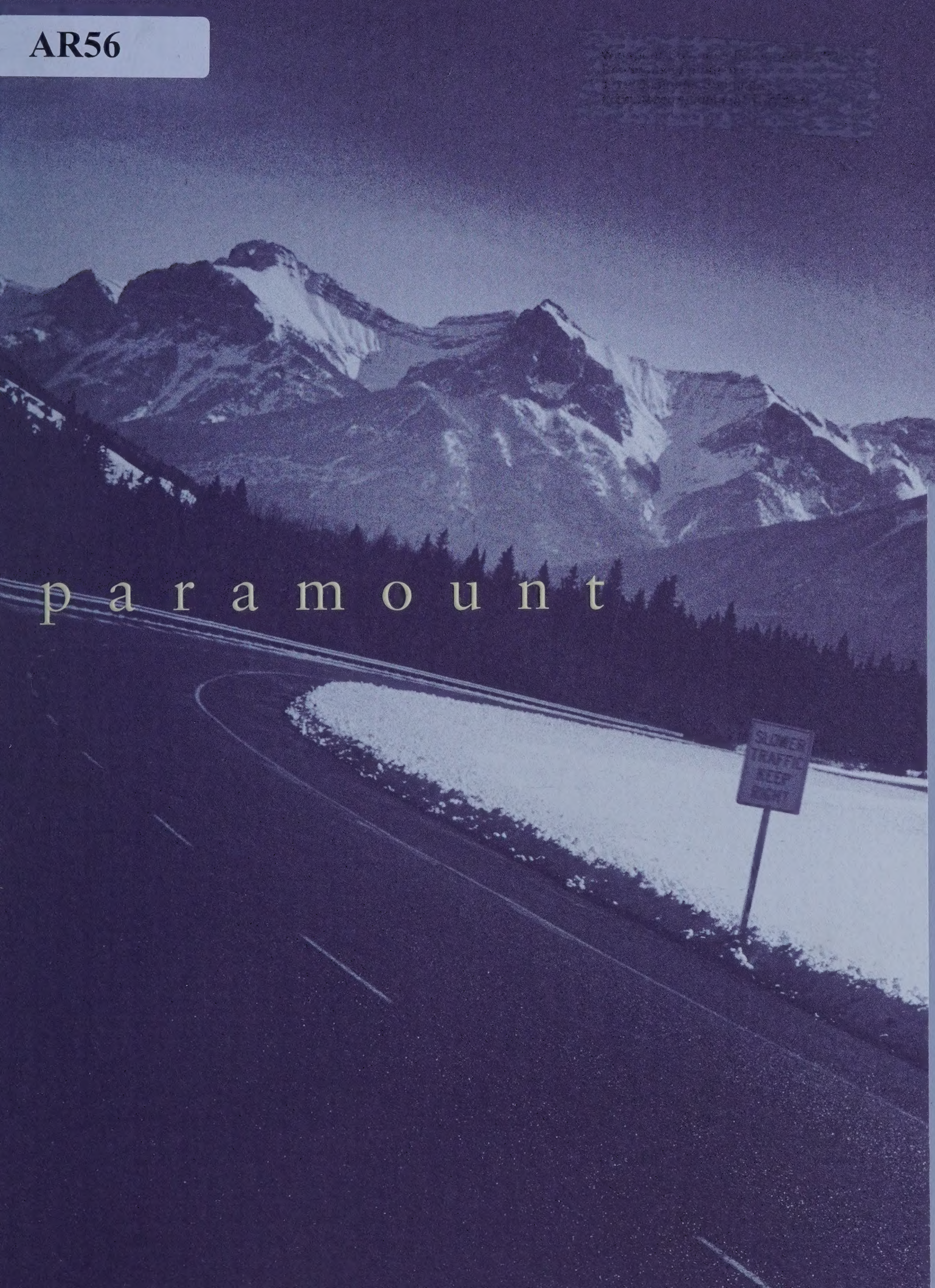


paramount

1997 ANNUAL REPORT

PARAMOUNT RESOURCES LTD.

milestones have been reached... the pace is set

CORPORATE PROFILE

Paramount Resources Ltd. is a Canadian energy company with 90 percent of its revenue derived from natural gas sales. The Company explores for, develops, processes, transports and markets natural gas. Since its inception in 1978, the Company has concentrated on the full cycle exploration and development of high deliverablitity shallow gas in northeastern Alberta. Over the last five years, the Company has been acquiring land, making strategic property acquisitions, evaluating reserves, drilling for, and producing oil and natural gas in other areas of the Western Canadian Sedimentary Basin. Paramount has the asset base, the infrastructure and a proven formula for growth to accelerate its pursuit of shareholder value.

1997 HIGHLIGHTS

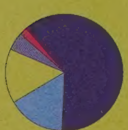
($ millions except per share)		1997	1996
Financial			
Revenue (before royalty)		$ 128.5	$ 100.6
Cash flow from operations		70.9	63.1
Per share		1.42	1.32
Net earnings		23.4	25.5
Per share		0.47	0.53
Capital expenditures (net)		184.2	63.1
Assets		470.0	306.5
Capitalization			
Bank debt (net of working capital)		137.4	80.0
Shareholders' equity		203.8	120.7
Weighted average shares outstanding (000's)		49,782.0	47,937.0
Outstanding shares at year end (000's)		53,953.6	49,203.6
Operating			
Sales (gross before royalty)			
Natural gas	Bcf	54.2	46.4
	MMcf/d	148.6	127.1
Average price	$/Mcf	2.12	1.84
Oil and Liquids	MBbls	508.1	553.6
	Bbls/d	1,392	1,517
Average price	$/Bbl	26.36	27.91
Exploration and Development			
Reserves (gross before royalty)			
Natural gas (Bcf)		636.8	476.4
Crude oil and liquids (MBbl)		13,440	10,662
Drilling			
Gross wells		147	107
Success rate		93%	91%
Land			
Net (thousand acres)		2,032	1,464

1998 FORECAST

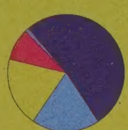
Natural gas sales (MMcf/d)	230
Average price ($/Mcf)	1.90
Crude oil and liquids sales (Bbl/d)	3500
Average price ($Cdn/Bbl)	21.00
Cash Flow ($ millions)	110
Cash Flow per share ($)	2.04

ASSET DISTRIBUTION

Land
(2,032,019 net acres)



Reserves
(770.4 Bcfeq)



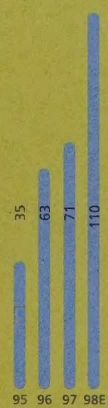
Before Tax Present Worth
Discounted @ 15%
($506.2 million)

● N.E.Alberta ○ Central Alberta and B.C. ● N.W. Alberta ● S.E. Saskatchewan ● Other

We have successfully achieved our goal of diversifying our asset base, establishing new core areas in central Alberta and British Columbia, northwestern Alberta, and southeastern Saskatchewan.

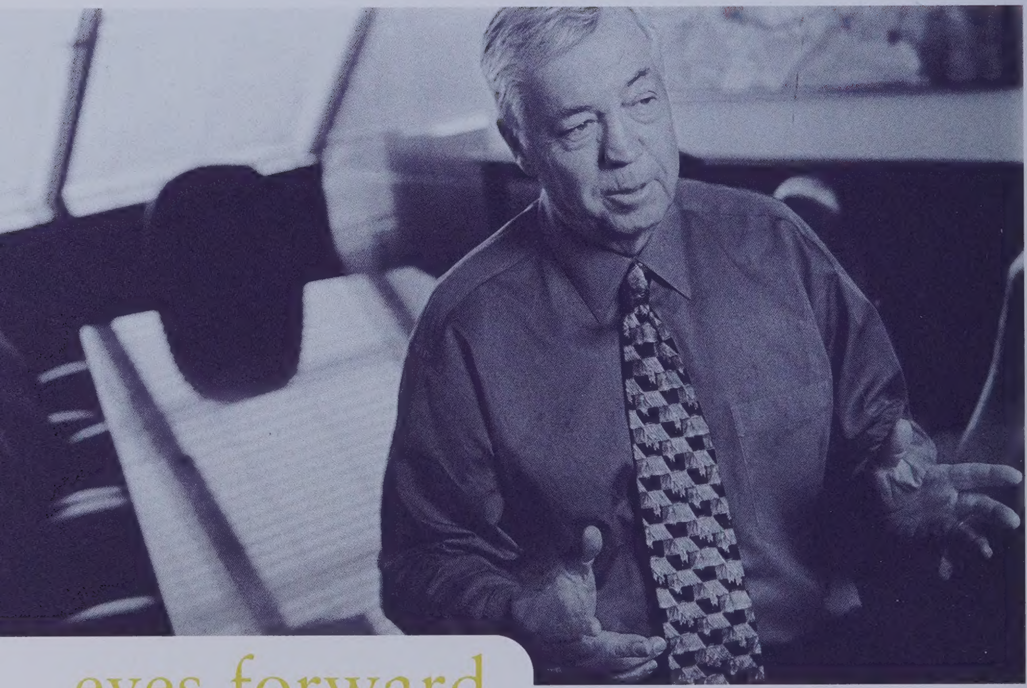
Revenue
($ millions)

Cash Flow
($ millions)



Production
(MMcfeq/d)

PRESIDENT'S MESSAGE TO SHAREHOLDERS



eyes forward

Paramount is proud to report another extremely successful year of growth during 1997. Operationally, record production levels of 162.5 MMcfeq/d were achieved (148.6 MMcf/d and 1,392 Bbl/d) representing a 14 percent increase over 1996 levels. Furthermore, year end exit rates of approximately 190 MMcf/d and 2,000 Bbl/d, or 210 MMcfeq/d, represent an increase of 29 percent over the 1997 averages. Due to the winter-only access restrictions in the majority of Paramount's operating areas, the first quarter is historically our most active in terms of adding new production and reserves. First quarter 1998 activity should add an additional 55 MMcfeq/d, leading the Company to anticipate 1998 average production rates of 230 MMcf/d and 3500 Bbls/d, totalling 265 MMcfeq/d.

The strong operational results pushed our financial results to record highs. Revenue increased to $128 million in 1997 from $101 million in 1996, a 27 percent increase; cash flow was a record $71 million in 1997 versus $63 million in 1996, a 13 percent increase year over year; and earnings in 1997 were $23.4 million, lower than in 1996 as a result of dry hole costs that are written off as they are incurred under successful efforts accounting which Paramount employs. On a per share basis, results were similar with cash flow increasing 8 percent to $1.42 per share. Commodity prices in 1997 were strong as Paramount realized $2.12/Mcf and $26.36/Bbl in 1997 versus $1.84/Mcf and $27.91/Bbl in 1996, a 15 percent increase and 6 percent decrease, respectively.

Reserves increased dramatically year over year with natural gas increasing 34 percent to 637 Bcf, and crude oil and natural gas liquids increasing 26 percent to 13.4 million barrels. Paramount was able to replace production of 59 Bcfeq by over four times with a five year rolling average finding and development cost of $ 0.67/Mcfeq. Paramount is proud of this finding and development cost as this year in particular was a year which saw in excess of $46.3 million spent directly on plant and infrastructure costs associated with bringing previous discoveries onstream. Net asset value per share increased to $6.84, demonstrating that the quality of reserves Paramount is adding are truly increasing shareholder value.

Paramount's major milestones in 1997 were achieved with the successful start-up of new plants at Bistcho Lake in northwestern Alberta, Teepee Creek and Clyde Lake in northeastern Alberta, and the new oil battery at Midale in southeastern Saskatchewan. In addition, Paramount made a significant acquisition at the end of 1997 from Reserve Royalty Corp., coincident with their acquisition of Jordan Petroleum Ltd. Paramount acquired production of 42 MMcf/d, proven reserves of 115 Bcf and 151,126 net acres of undeveloped land for $72 million. Since 1992, Paramount's production has moved from virtually 100 percent northeastern Alberta shallow gas to a 1997 split of 71 percent northeastern Alberta shallow gas and 29 percent from new core areas established within the last five years. Despite the major acquisition in the shallow gas area made at the end of 1997, this trend is expected to continue through 1998 to a split of approximately 65/35 in favour of northeastern Alberta shallow gas.

This diversification is a reflection of the exploration expertise of Paramount and provides a continued strengthening of the foundation of the Company. Several significant exploration successes in 1997 are worthy of note. Drilling was initiated in the Liard area of the Northwest Territories, resulting in the casing of the C-76 well at Bovie Lake. The drilling program at Liard has continued into 1998 where the first well, Arrowhead N-65, flowed at rates of 28 MMcf/d along with formation water during drilling. At Sousa in northwestern Alberta, a Keg River oil discovery and a gas discovery in the Slave Point formation will provide follow-up opportunities. In central Alberta, a number of wells were drilled at Kaybob, the most significant of which was the 10-1-64-20 W5 well which flowed at rates of over 27 MMcf/d and is expected to produce at initial rates of approximately 15 MMcf/d. A new pool wildcat at Wild River was drilled horizontally and underbalanced and is now onstream. Finally, in southeastern Saskatchewan success was found at Harthaven and Froude as work was done to attempt to duplicate the initial Ordovician discovery at Midale.

Looking forward, Paramount has an extremely active program planned for 1998. Major new production additions are planned at East Liege, Teepee Creek, Corner, Kettle River and North Quigley in northeastern Alberta; at Kaybob and Obed in central Alberta; at Zaremba in northeastern British Columbia; and at Sousa in northwestern Alberta. As well, exploration activity which could dramatically change the complexion of Paramount will be conducted in southeastern Saskatchewan; Liard, Northwest Territories; the southern Alberta foothills; and other areas of the Western Canadian Sedimentary Basin.

In order to take advantage of the abundant opportunities available, Paramount successfully raised $63 million (net) by the issue of 4 million shares at $16.50 per share on a "bought deal" basis. Closing for the issue occurred on November 12, 1997. This public share issue is only the second such one since the Company's Initial Public Offering in 1978.

The oil and gas industry in Canada saw 1997 draw to a close with declining oil and gas prices that have continued into the early part of 1998. While this has shattered much of the expansionary "boom time" atmosphere in the industry, it has created some opportunity. High commodity prices and increased access to capital through the mid-90's increased competition and pushed land and reserve prices to record levels. The industry was operating at very high utilization rates for equipment, supplies and manpower which pushed prices for services higher. With the weakening of commodity prices, the decrease in available capital by industry resulting from lower cash flows and equity prices will reverse this situation, and allow those with strong operational and financial positions to continue to excel. Paramount posted record financial and operational results in 1997, and this success leaves us in a strong position to capitalize on these new opportunities. Paramount's capital spending program for 1998 is expected to be $120 million.

Paramount's success demonstrates that the Company has had a good formula for growth. To ensure growth continues using this same formula, a significant reorganization was implemented in October, dividing the company into corporate operating units with individual budgets, production goals, and exploration, development and construction programs, supported by a common source for functional services such as accounting, marketing, and drilling. In addition to the corporate operating units, a pure exploration unit was re-established which will develop new prospects and ideas to be tested. This corporate structure will enhance the Company's ability to grow through to the next plateau within our industry.

These are exciting times for Paramount as the Company strives to continue its past record of aggressive growth into the future.

C. H. RIDDELL

PRESIDENT AND CHAIRMAN
OF THE BOARD

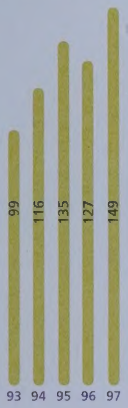
MARCH 30,1998

REVIEW OF OPERATIONS

making good time

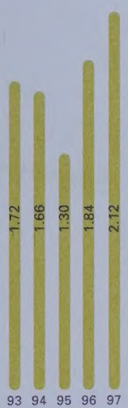
CRUDE OIL AND NATURAL GAS SALES AND PRICES

Natural Gas Sales
(MMcf/d)



Paramount's production base continues to diversify outside of the northeast Alberta shallow gas core area with 40 percent of production forecast to come from core areas that have been established in the last five years. Overall production rates in 1997 totalled 162.5 MMcfeq/d as compared to 142.3 MMcfeq/d in 1996, an increase of 14 percent year over year. Natural gas increased 17 percent from 127.1 MMcf/d in 1996 to 148.6 MMcf/d in 1997. Year end exit rates were 190 MMcf/d or 28 percent higher than the 1997 average, putting us well on our way to achieving our targets for 1998. Crude oil and natural gas liquids production decreased from 1,517 Bbl/d in 1996 to 1,392 Bbl/d in 1997, but December 1997 production was 2,000 Bbl/d representing an increase of 44 percent over average 1997 production levels. Further oil production increases are anticipated, principally as a result of discoveries being brought onstream in southeast Saskatchewan. **Paramount currently forecasts natural gas production to average approximately 230 MMcf/d and crude oil and liquids production to average 3,500 Bbl/d in 1998.**

Natural Gas Price
($/Mcf)



Commodity prices remained strong in 1997 with Paramount realizing $2.17/Mcfeq versus $1.94/Mcfeq in 1996, representing a 12 percent increase over 1996 levels. Natural gas prices increased to $2.12/Mcf from $1.84/Mcf in 1996. This is a significant premium to the Alberta reference price of $1.97/Mcf, which is an indicator of the average price realized by industry. Oil and natural gas liquids prices were down 6 percent in 1997 to $26.36/Bbl from $27.91/Bbl in 1996.

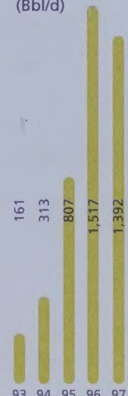
NATURAL GAS: VOLUME AND PRICE

	1997		1996	
	Average Volume	Price/Mcf	Average Volume	Price/Mcf
	MMcf/d	$	MMcf/d	$
First quarter	110.4	2.55	123.9	1.78
Second quarter	139.0	1.67	130.1	1.65
Third quarter	149.0	1.81	129.0	1.72
Fourth quarter	195.0	2.44	123.8	2.21
Annual average	148.6	2.12	127.1	1.84
Annual sales	54.2 Bcf		46.4 Bcf	

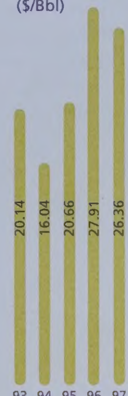
CRUDE OIL AND LIQUIDS: VOLUME AND PRICE

	1997		1996	
	Average Volume	Price/Bbl	Average Volume	Price/Bbl
	Bbl/d	$	Bbl/d	$
First quarter	1,415	29.25	1,029	23.66
Second quarter	1,202	26.23	1,449	26.44
Third quarter	1,341	23.60	1,666	28.18
Fourth quarter	1,609	26.26	1,898	31.11
Annual average	1,392	26.36	1,517	27.91
Annual sales	508.1 MBbls		553.6 MBbls	

Crude Oil and Liquids
(Bbl/d)



Crude Oil and Liquids Price
($/Bbl)



CASH FLOW FROM OPERATIONS

($ millions)

Increased production volumes combined with strong commodity prices pushed revenue up 28 percent and cash flow to a record $71 million. Production volume increases of 14.2 percent, coupled with an 11.9 percent increase in commodity prices, improved revenue by 28 percent to $128.5 million and cash flow by 13 percent to $70.9 million. Earnings declined 8 percent to $23.4 million. Cash flow per share increased to $1.42, up 8 percent from $1.32 per share in 1996. These levels are coincident with levels forecast by the Company. Although it is predicted that there will be some softening in commodity prices in 1998, it is expected that production growth will push Paramount to further records in 1998.

CASH FLOW RECONCILIATION $/Mcfeq

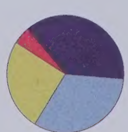
	1997		1996	
Volume (MMcfeq)	59,320		51,924	
	$ millions	$/Mcfeq	$ millions	$/Mcfeq
Revenue	$ 128.5	$ 2.17	$ 100.6	$ 1.94
Net royalty	(17.5)	(0.30)	(7.8)	(0.15)
Operating costs	(21.0)	(0.35)	(16.2)	(0.31)
Netback	$ 90.0	$ 1.52	$ 76.6	$ 1.48
G&A and other expense (net)	(8.6)	(0.15)	(4.6)[1]	(0.09)
Interest on long-term debt	(6.8)	(0.11)	(6.4)	(0.12)
Lease rentals	(2.5)	(0.04)	(2.0)	(0.04)
Large Corporation/Current taxes	(1.2)	(0.02)	(0.5)	(0.01)
Cash flow	$ 70.9	$ 1.20	$ 63.1	$ 1.22
Weighted average shares (millions)	49.8		47.9[2]	
Cash flow per share	$ 1.42		$ 1.32	

MMcfeq: barrels of oil and royalty income and processing income converted to gas sales on the basis of 1 barrel = 10 Mcf.

(1) Net of $1 million non-cash write-off of Other Assets and other income

(2) Adjusted for 3 for 1 stock split effective June 4, 1997

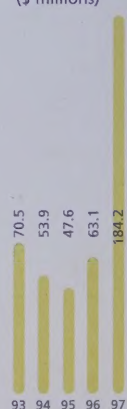
CAPITAL EXPENDITURES



- Drilling/Seismic
- Crown Land Purchases
- Property Acquisitions
- Plant/Gathering and Equipment

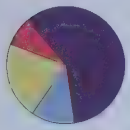
Net capital expenditures were $184.2 million reflecting the Company's aggressive exploration, development and acquisition program in 1997. Gross capital expenditures of $206.8 million were offset by $22.6 million in property dispositions comprised principally of a non-producing heavy oil lease at Pelican Lake for $12.25 million and the sale of our North Zama interest for $6.5 million. The biggest contributor to capital expenditures was $88.2 million on property acquisitions in December 1997, comprised principally of: $71.8 million for the Reserve Royalty acquisition; $8.0 million for assets in Midale, Saskatchewan; $4.4 million for interests in Zaremba, British Columbia; and $4.0 million for the South Liege property. The above property acquisitions include tangible assets valued at $21.1 million which have been allocated to 1997 plant/gathering and equipment costs. Significant capital was invested in new facilities including the Bistcho Lake sour gas processing facility in northwest Alberta, and the Teepee Creek and Clyde Lake gas plants in northeast Alberta. The positive results of this extensive capital spending program will be reflected through 1998.

Net Capital Expenditures ($ millions)



OPERATED PLANT CAPACITY

Production Distribution



- Northeast Alberta Operated
- Other Operated
- Non-operated
- Oil

Operated plant capacity increased 6 percent in 1997 to 144 MMcf/d as a result of new plant construction at Bistcho Lake and Clyde Lake as well as the acquisition and assumption of operatorship of the South Liege plant and the Zaremba plant. Paramount has become a leader with respect to operations in our northeast Alberta shallow gas core area. Since a significant portion of the operating costs are fixed and thus independent of throughput, operating costs on a per unit basis vary significantly depending on a given property's plant capacity and where it is within its production life cycle. **Paramount operated facilities in our northeast Alberta shallow gas core area averaged operating costs of $0.28/Mcf.**

With diversification into new operating areas, the Company is producing gas which requires more complex processing to prepare the raw gas to meet NOVA pipeline specifications. The costs are inherently higher but the Company is striving to match our previous track record in these new operating areas.

Approximately 20 percent of Paramount's 1997 natural gas production was non-operated or custom processed for a fixed fee. While custom processing fees are generally higher than operating costs, they can act to offset capital expenditures associated with facilities construction, and may reduce downside risk associated with operating costs, particularly in the later life of a field.

No additional operated plant capacity was gained through the acquisition of properties from Reserve Royalty Corp. as the Winefred, Thornbury and Cold Lake production is custom processed for a fixed fee, and the Primrose property is non-operated.

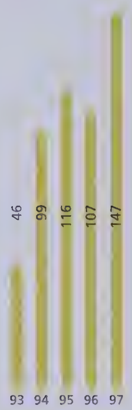
OPERATED PLANT CAPACITY [1]

(Defined as at December 31)	1997	1996
Number of gas plants	16	12
Net plant capacity (MMcf/d)	144	135
Gross plant capacity (MMcf/d)	193	217
Utilization (%)[2]	94	82

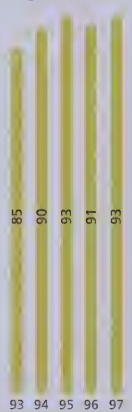
[1] Capacity is defined as 'best month' production unencumbered by transportation restriction per plant per year.
[2] Utilization is the ratio of the average monthly production over the best month production.

DRILLING RESULTS

Wells Drilled
(gross)



Drilling Success
(gross %)



Paramount conducted an active drilling program, completing 147 gross (73.4 net) wells with an average 50 percent working interest. In the northeast Alberta shallow gas core area 64 gross wells were drilled; 27 gross wells were drilled in the central Alberta/northeast British Columbia core area; 17 gross wells were drilled in the northwest Alberta core area; 3 wells in the Liard Basin in northeast British Columbia and the southern Northwest Territories; and 36 gross wells in southeast Saskatchewan. The lower average working interest of 50 percent was mainly due to the large number of wells in southeast Saskatchewan where Paramount's working interest does not exceed 25 percent. Paramount operated 78 of the 147 gross wells; the majority of the non-operated drilling was in southeast Saskatchewan, Teepee Creek and farmin wells at Kaybob.

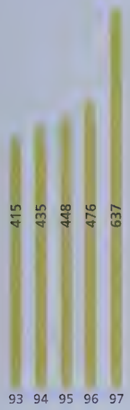
Paramount's 1997 drilling program was heavily weighted toward exploratory drilling; 54 gross (17.3 net) wells were exploratory wells and 93 gross (56.1 net) wells were development. The Company realized a success rate of 93 percent, notable in light of the high proportion of exploratory wells.

DRILLING RESULTS

	1997		1996	
	Net	Gross	Net	Gross
Exploratory				
Gas	10.1	23	15.7	28
Oil/oil and gas	3.2	17	0.9	3
Standing/Service	2.5	8	0.5	2
Dry	1.5	6	1.5	7
Total Exploratory	17.3	54	18.6	40
Success rate (gross)	89%		82%	
Development				
Gas	43.8	58	20.3	49
Oil/oil and gas	2.2	11	3.6	14
Standing/Service	7.1	20	0.5	1
Dry	3.0	4	2.0	3
Total Development	56.1	93	26.4	67
Success rate (gross)	96%		96%	
All well categories	73.4	147	45.0	107
Success rate (gross)	93%		91%	

RESERVES

Natural Gas Reserves
Proven and Probable
(gross before royalties
Bcf)



At year end 1997, Paramount's reserves had grown by 38 percent over year end 1996 levels to 770 Bcfeq. This growth translates into Paramount replacing its 1997 production of 59 Bcfeq by 417 percent. Natural gas reserves grew from a year end 1996 total of 476 Bcf to 637 Bcf, or a 34 percent increase; crude oil and natural gas liquid reserves grew from 10.7 MMBbls at year end 1996 to 13.4 MMBbls at year end 1997, a 25 percent increase. Of the total reserves additions of 246 Bcfeq year over year, less production of 59 Bcfeq, 3.7 MMBbls were added in southeast Saskatchewan, 128 Bcf were added with the Reserve Royalty acquisition, and 81 Bcfeq were added within the other areas of the Company.

Paramount's reserve reporting consists of three independent engineering reports for year end 1997: McDaniel & Associates Consultants Ltd. were used for the bulk of the assets of the Company as they are the independent engineering firm that Paramount has traditionally used; Sproule Associates Limited were utilized for the Reserve Royalty acquisition assets, as this acquisition transpired at the end of 1997 and they are the company which had evaluated the assets in July 1997; and Gilbert Laustsen Jung Associates Ltd. were used in southeast Saskatchewan as they evaluate the reserves of the operator.

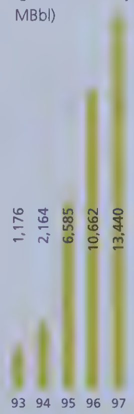
NATURAL GAS RESERVES (Bcf)

		1997		1996	
		Bcf	% of Total	Bcf	% of Total
Proven:	Producing	357.0	56	190.6	40
	Non-producing	124.7	20	155.2	33
Subtotal		481.7	76	345.8	73
Probable additional		155.1	24	130.6	27
All reserve categories		636.8	100	476.4	100

CRUDE OIL AND LIQUIDS RESERVES (MBbl)

		1997		1996	
		MBbl	% of Total	MBbl	% of Total
Proven:	Producing	4,912	36	5,090	48
	Non-producing	3,474	26	484	4
Subtotal		8,386	62	5,574	52
Probable additional		5,054	38	5,088	48
All reserve categories		13,440	100	10,662	100

Crude Oil & Liquids
Reserves
Proven and Probable
(gross before royalties
MBbl)



LAND INVENTORY

Land inventory at the end of 1997 totalled over 2.0 million acres, a 39 percent increase over year end 1996. Undeveloped land increased by 31 percent year over year to 1.2 million acres, and the fair market value assigned to these lands increased 12 percent from 1996 to $47.0 million at year end 1997. **Paramount has an inordinately large amount of undeveloped lands for a company its size. These lands represent the future growth prospects for the Company.**

LAND

	1997		1996	
(thousand acres)	Net	Gross	Net	Gross
Land assigned reserves	809 (40%)	1,204	532 (36%)	709
Undeveloped land	1,223 (60%)	2,351	932 (64%)	1,579
Total	2,032	3,555	1,464	2,288
Value of undeveloped land @ FMV ($ millions)	$ 47.0		$ 42.1	

FINDING AND DEVELOPMENT COSTS: 1993 TO 1997

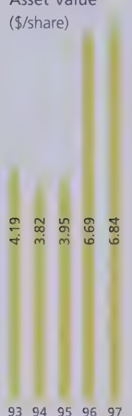
Paramount calculates finding and developments costs through the following formula:

$$\frac{\text{Total capital expenditures - disposition proceeds} \pm \text{change in fair market value of undeveloped lands}}{\text{Proven and 50\% probable reserve additions (oil to gas conversion of 1 barrel = 10 Mcf)}}$$

Paramount's finding and development costs on a five-year rolling average basis are $0.67/Mcfeq.

NET ASSET VALUE

Net (Appraised) Asset Value ($/share)



Paramount's net (appraised) asset value at year end 1997 increased to $6.84 per share depicting the growth in reserves and a representation that the quality of reserves Paramount is finding are adding real value to the shareholders.

NET (APPRAISED) ASSET VALUE

($ millions as at December 31)	1997	1996
Reserve value (Escalating price assumption) @ 15 percent discount, before royalties	453.0	360.8
Alberta Royalty Tax Credit (ARTC)[1] @ 15 percent discount	6.2	6.2
Fair market value of undeveloped land	47.0	42.1
Subtotal	506.2	409.1
Working capital (deficiency)	2.1	(17.0)
Total Assets	508.3	392.1
Less: Long-term debt (operating)	139.5	63.1
Net (appraised) asset value[1]	368.8	329.0
Net (appraised) asset value per share[2]	$ 6.84	$ 6.69

[1] ARTC: only on proven reserves
[2] Outstanding shares: 1997 - 53,953,600; 1996 - 49,203,600
Adjusted for 3 for 1 stock split effective June 4,1997

PRODUCTION DISTRIBUTION BY CORE AREA

	1997		1998E	
	Natural gas (MMcf/d)	Crude oil and NGL's (Bbl/d)	Natural gas (MMcf/d)	Crude oil and NGL's (Bbl/d)
N.E. Alberta	115.7	3	168	-
Central Alberta/N.E. B.C.	22.3	605	45	860
N.W. Alberta	8.0	101	16	15
S.E. Saskatchewan	-	616	-	2,525
Other	2.6	67	1	100
	148.6	1,392	230	3,500

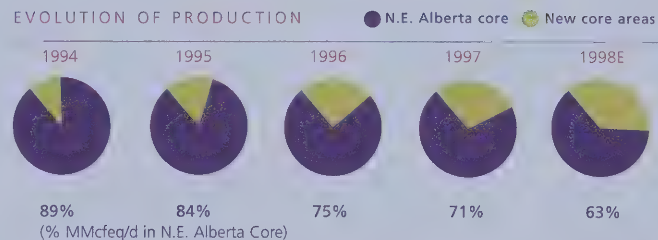
both hands on the wheel

Paramount is first and foremost an exploration company with a proven track record. Our definition of exploration, however, is not limited to the traditional meaning of conceiving a new hydrocarbon pool, acquiring land, and drilling the prospect. Paramount's corporate objective is to turn ideas, whether geological, technical, strategic, marketing related, or otherwise, into value for our shareholders. Our operating principles are simple. We:

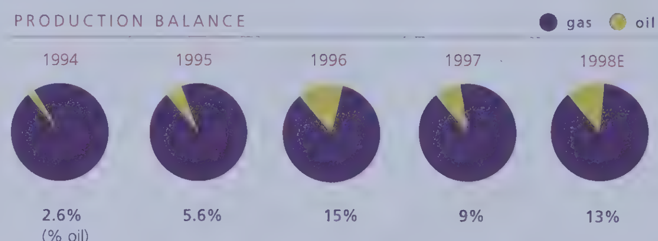
- generate ideas internally, pursuing a balanced risk portfolio;
- maximize working interest in low to medium risk opportunities;
- joint venture with select industry partners to reduce exposure in high risk/high return plays; and
- control costs.

Implicit in our strategy is perseverance; learning from our experiences (expensive as they can be), adapting primary ideas with potential, and extrapolating profitable ideas along trend and to new areas.

EVOLUTION OF PRODUCTION



PRODUCTION BALANCE



By implementing successful ideas, we have grown our operations to five core areas; northeast Alberta, central Alberta and northeast British Columbia, northwest Alberta, southeast Saskatchewan, and the Liard Basin, Northwest Territories. The following series of working maps highlight the significant 1997 and first quarter 1998 activity.

CORE AREA **NORTHEAST ALBERTA**

CARBONATE SHALLOW GAS TREND

TEEPEE CREEK
- onstream spring 1997 at 15 MMcf/d net to Paramount

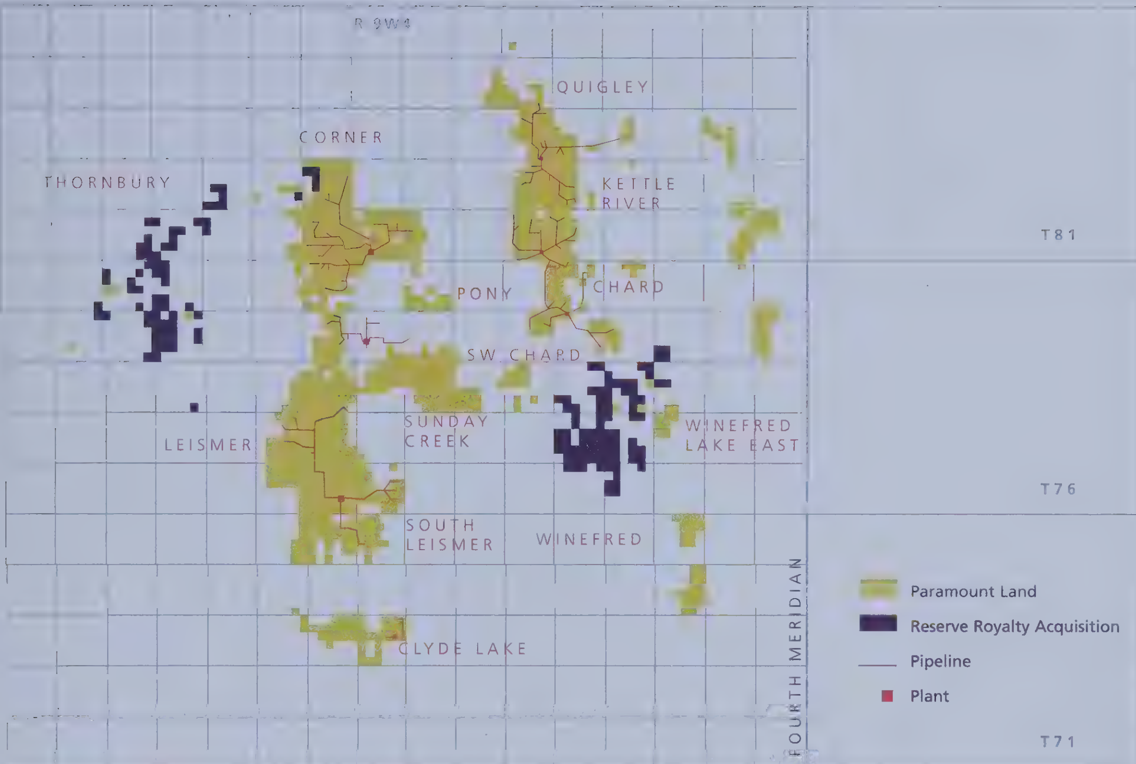
SOUTH LIEGE
- plant purchase, effective October 1, 1997, added 4 MMcf/d production

EAST LIEGE
- new drilling and tie-ins will add 5 MMcf/d net in winter 1998

GRANOR
- oil sands lease sold in 1997 for $12.25 million

LEGEND
- new drilling and tie-ins in winter 1998

"The Company attained its earliest success when we unraveled the rewards of the Grosmont shallow gas trend in the early 1980's. The 'shallow gas carbonate trend' is now on decline, but new opportunities are still being identified to economically extend the life of this asset base."



SANDSTONE SHALLOW GAS TREND

CLYDE LAKE

- plant construction completed in July 1997 - onstream at an initial 5 MMcf/d (50% net to Paramount)
- Reserve Royalty acquisition effective October 1, 1997 +42 MMcf/d gas production +136 Bcf reserves

Thornbury	7 MMcf/d	32 Bcf
Winefred	8 MMcf/d	35 Bcf
Cold Lake	18 MMcf/d	41 Bcf
Primrose	9 MMcf/d	20 Bcf

- drilling and workovers are planned for winter 1998 to maintain 1997 production levels

CORNER

- plant expansion and infill drilling will add 8 MMcf/d daily production in 1998 (100% W.I.)

LEISMER

- gathering system expanded to add 3 MMcf/d net to daily production in winter 1998

QUIGLEY

- plant expansion and infill drilling will add 10 MMcf/d net to daily production in 1998

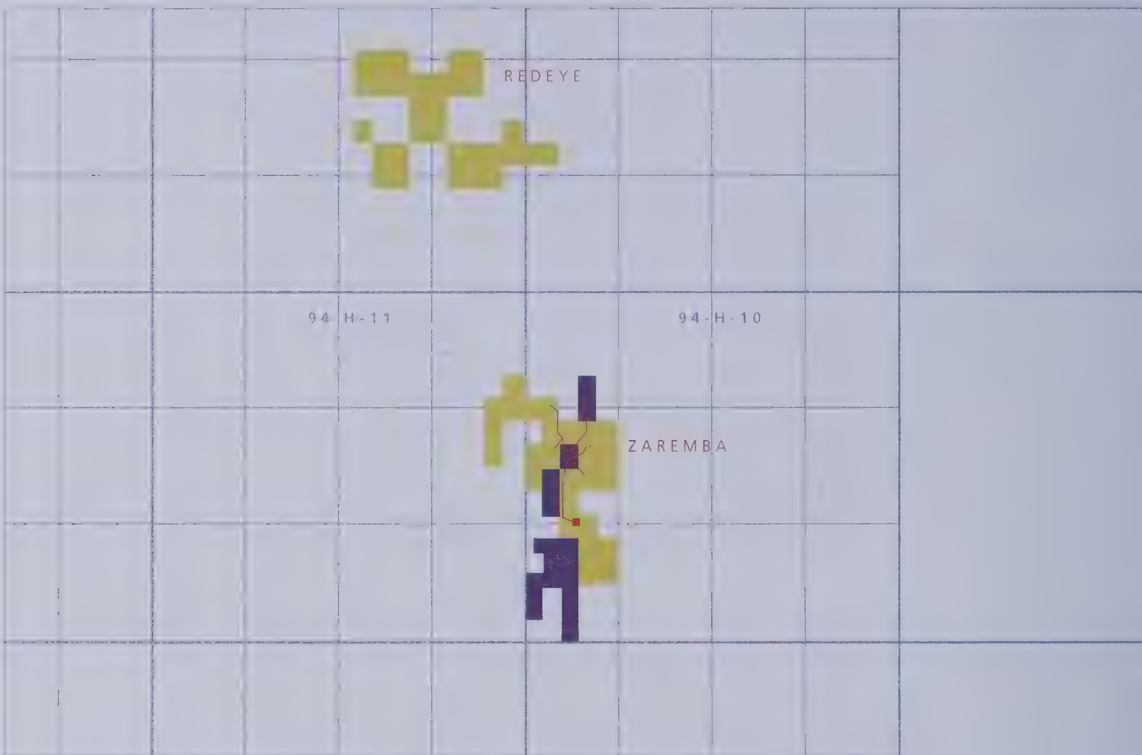
KETTLE

- plant expansion and infill drilling will add 5 MMcf/d to daily production in 1998 (100% W.I.)

WINEFRED LAKE EAST

- facility construction will add 4 MMcf/d gross (50% W.I.)

"Applying our knowledge of shallow gas production to a different exploration environment, corporate growth in the early 90's was fueled through the successful exploitation of the Lower Cretaceous clastics of northeastern Alberta. This area continues to provide significant low risk expansion to the Company."

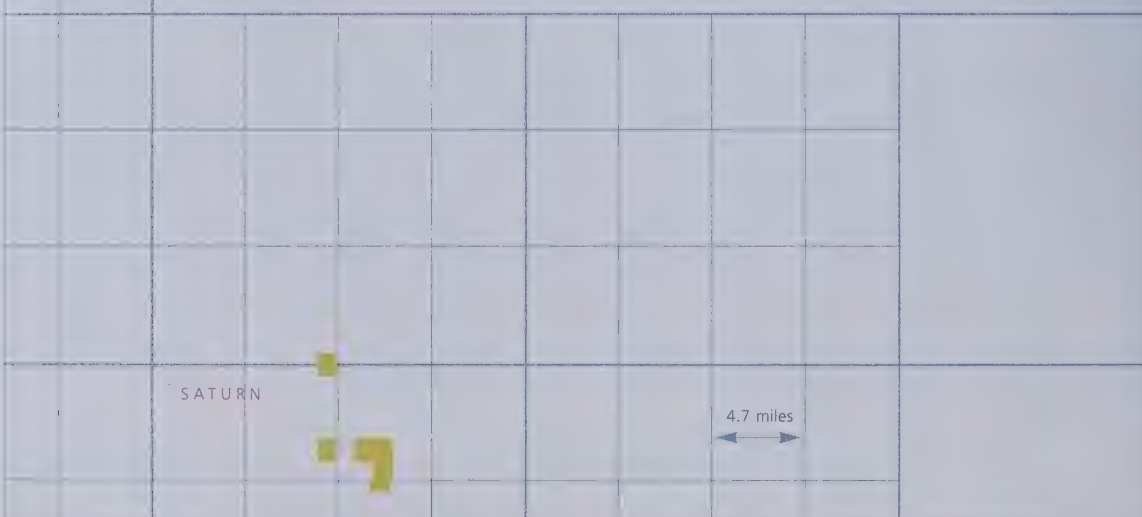


CORE AREA **CENTRAL ALBERTA/NORTHEAST BRITISH COLUMBIA**

NORTHEAST BRITISH COLUMBIA

ZAREMBA

- acquisition of Zaremba gas plant, effective October 1, 1997, added 6 MMcf/d net production (60% W.I.) for a total 10 MMcfd net to Paramount
- one new well and four workovers will be completed in first quarter 1998 to maintain production levels at 10 MMcf/d net



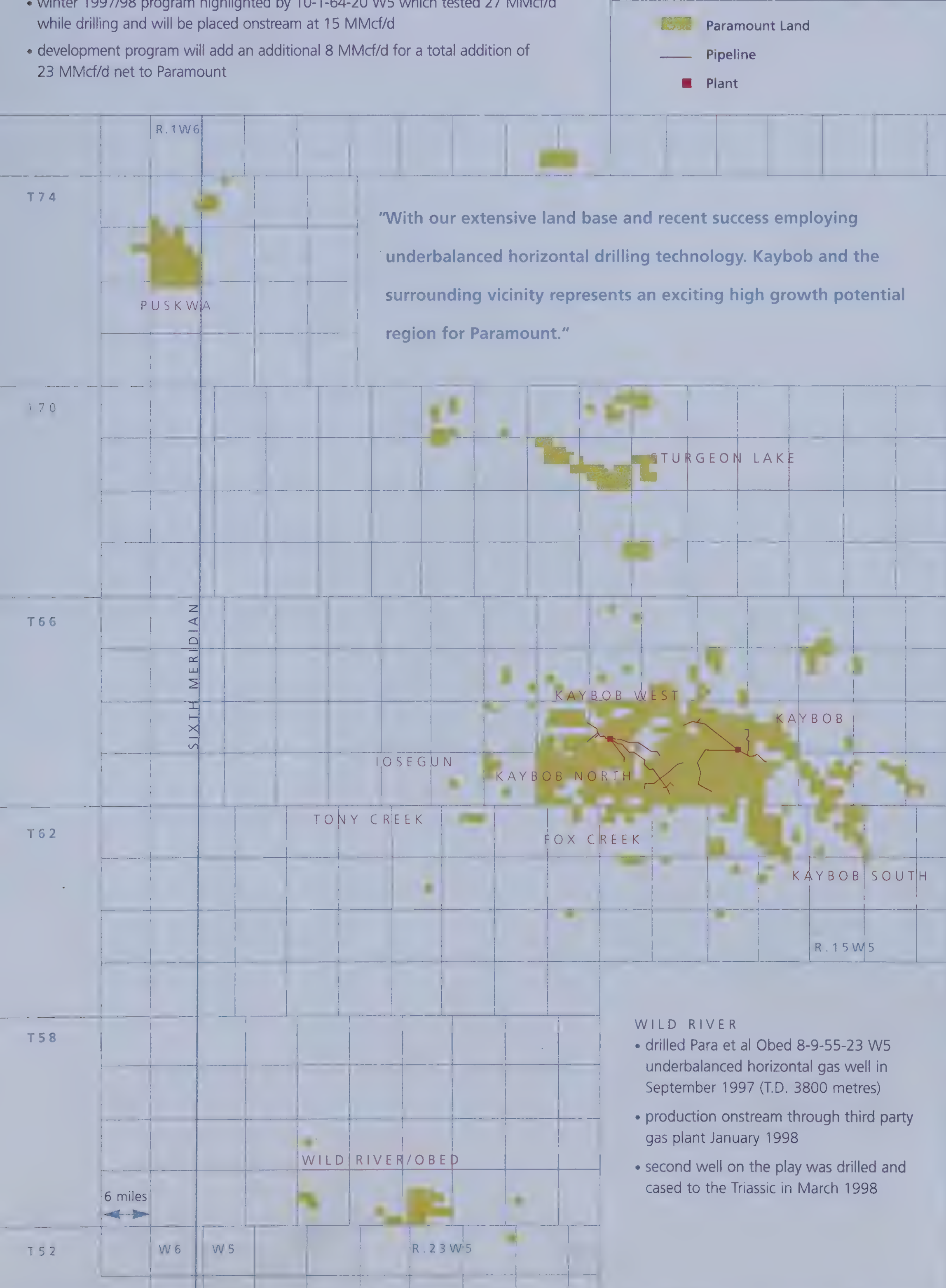
Paramount Land
Acquired Land
Pipeline
Plant

"Paramount has developed a successful formula exploring for low risk multizone plays in northeastern British Columbia. High risk, deeper targets will be an added dimension for 1998."

CENTRAL ALBERTA

KAYBOB

- Paramount purchased 8 MMcf/d through Arwaves Resources Ltd. in 1997
- summer 1997 program included four new wells and two recompletions adding net 6 MMcf/d
- winter 1997/98 program highlighted by 10-1-64-20 W5 which tested 27 MMcf/d while drilling and will be placed onstream at 15 MMcf/d
- development program will add an additional 8 MMcf/d for a total addition of 23 MMcf/d net to Paramount



"With our extensive land base and recent success employing underbalanced horizontal drilling technology. Kaybob and the surrounding vicinity represents an exciting high growth potential region for Paramount."

WILD RIVER

- drilled Para et al Obed 8-9-55-23 W5 underbalanced horizontal gas well in September 1997 (T.D. 3800 metres)
- production onstream through third party gas plant January 1998
- second well on the play was drilled and cased to the Triassic in March 1998

CORE AREA **NORTHWEST ALBERTA**

CAMERON HILLS

- future oil and gas development projected for year 2000
- NOVA infrastructure 50% closer to Cameron Hills reserves with Bistcho Lake development

ESK LAKE

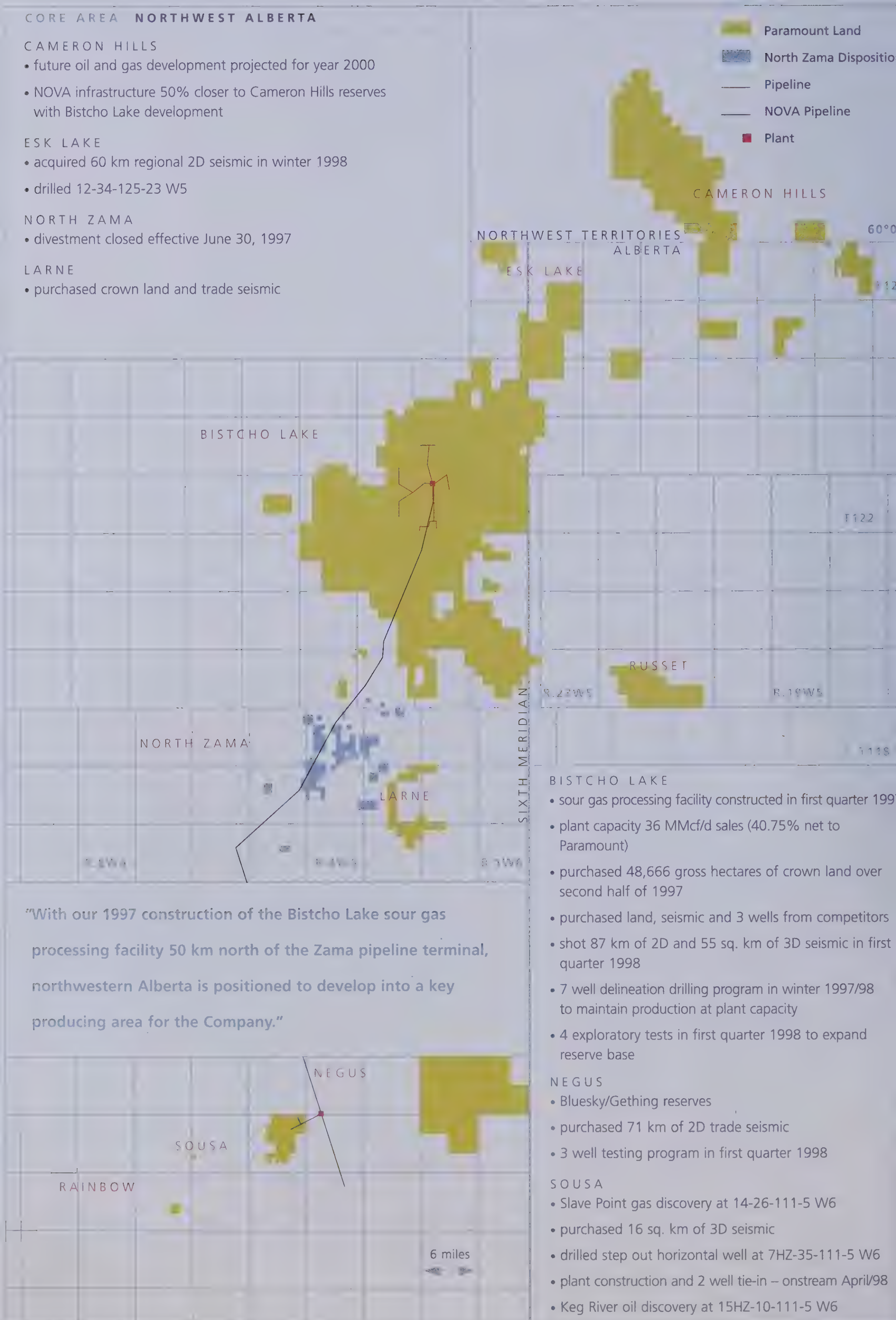
- acquired 60 km regional 2D seismic in winter 1998
- drilled 12-34-125-23 W5

NORTH ZAMA

- divestment closed effective June 30, 1997

LARNE

- purchased crown land and trade seismic



"With our 1997 construction of the Bistcho Lake sour gas processing facility 50 km north of the Zama pipeline terminal, northwestern Alberta is positioned to develop into a key producing area for the Company."

BISTCHO LAKE

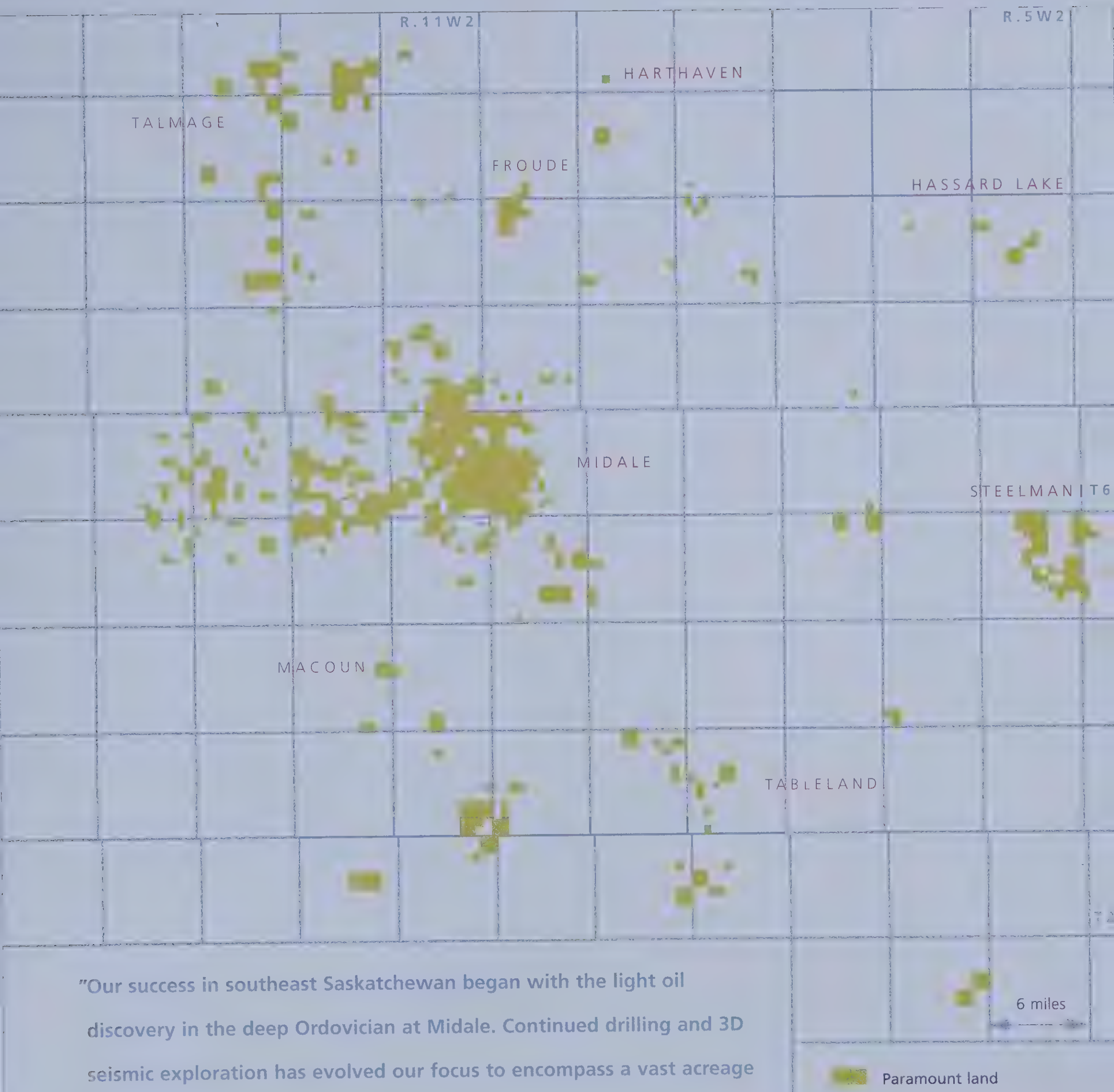
- sour gas processing facility constructed in first quarter 199
- plant capacity 36 MMcf/d sales (40.75% net to Paramount)
- purchased 48,666 gross hectares of crown land over second half of 1997
- purchased land, seismic and 3 wells from competitors
- shot 87 km of 2D and 55 sq. km of 3D seismic in first quarter 1998
- 7 well delineation drilling program in winter 1997/98 to maintain production at plant capacity
- 4 exploratory tests in first quarter 1998 to expand reserve base

NEGUS

- Bluesky/Gething reserves
- purchased 71 km of 2D trade seismic
- 3 well testing program in first quarter 1998

SOUSA

- Slave Point gas discovery at 14-26-111-5 W6
- purchased 16 sq. km of 3D seismic
- drilled step out horizontal well at 7HZ-35-111-5 W6
- plant construction and 2 well tie-in -- onstream April/98
- Keg River oil discovery at 15HZ-10-111-5 W6



"Our success in southeast Saskatchewan began with the light oil discovery in the deep Ordovician at Midale. Continued drilling and 3D seismic exploration has evolved our focus to encompass a vast acreage position with numerous objectives."

CORE AREA **SOUTHEAST SASKATCHEWAN**

- 2,525 Bbl/d forecast in 1998

MIDALE
- significant infill drilling in 1997
- oil battery constructed in 1997
- 7.6 MMBbl crude oil reserves at December 31, 1997
- Upton/Cavell acquisitions add 350 Bbl/d ($8 MM)

HARTHAVEN
- 7B-2-10-9 W2 initial production 600 Bbl/d from Ordovician Yeoman formation
- 12T-1-8-9 W2 offset completed as Yeoman producer
- 12T-1-8-9 W2 also a discovery in deeper Winnipeg sand
- 1998 will show continued development of both targets

CLAIRLAW
- 4-35-7-5 W2 discovery well drilled in 1997
  – Initial production 150 Bbl/d from Yeoman formation

FROUDE
- 2-32-8-10 W2 vertical discovery well tested at 1800 Bbl/d from Yeoman formation
- 2-32 horizontal in Yeoman formation tested at > 4000 Bbl/d
- 2-32 horizontal in Winnipegosis formation tested at > 1000 Bbl/d
- 2-32 horizontal in Frobisher formation drilled in early 1998

FUTURE EXPLORATION

TALMAGE (9-13 W2)

STOUGHTON (9-8 W2)

FRONTIER AREA **NORTHWEST TERRITORIES**

LIARD BASIN

- 269,343 gross acres; 80,827 net acres
- purchased 193 km trade seismic in 1997 and first quarter 1998 for 1200 km of total 2D seismic coverage

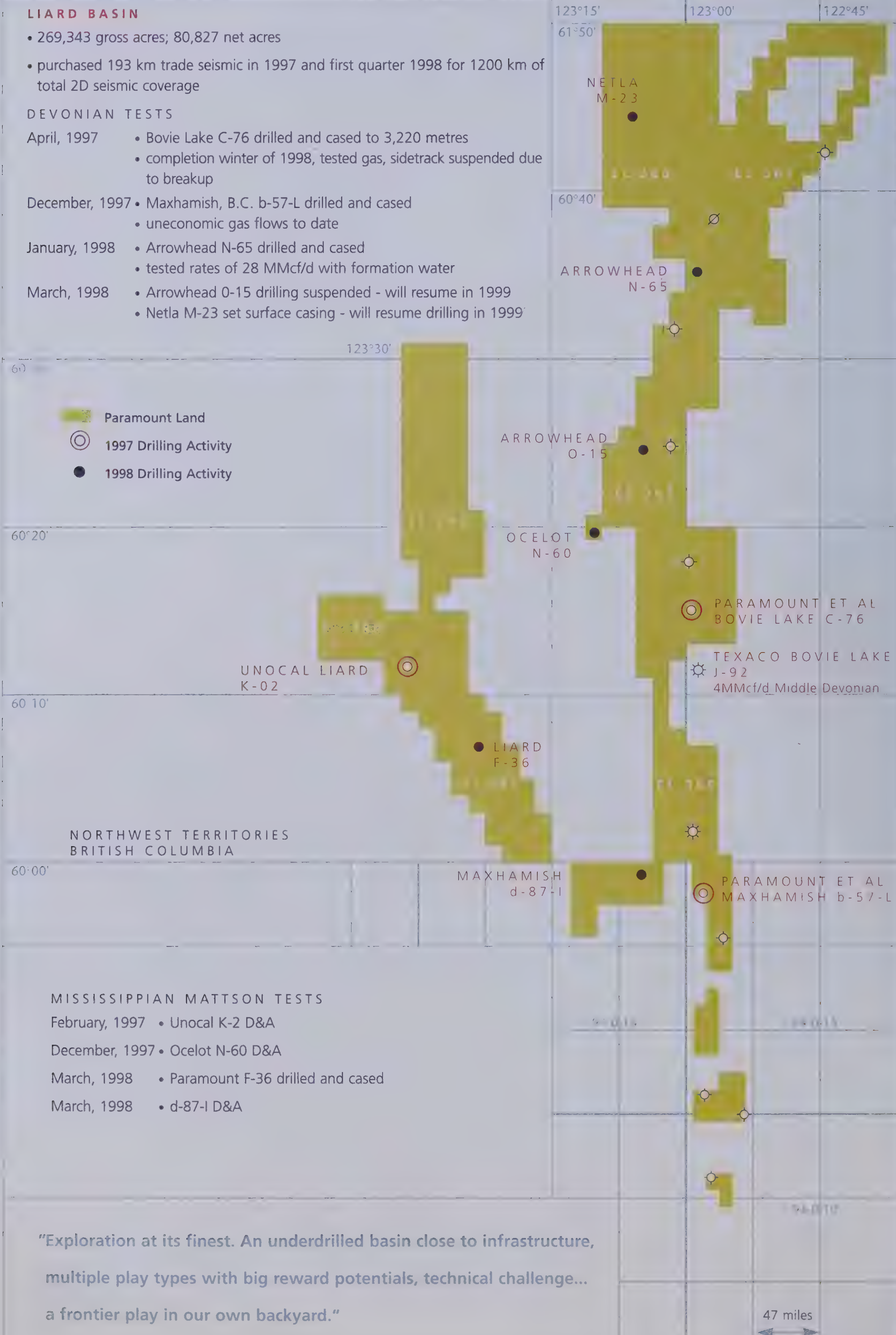
DEVONIAN TESTS

April, 1997
- Bovie Lake C-76 drilled and cased to 3,220 metres
- completion winter of 1998, tested gas, sidetrack suspended due to breakup

December, 1997
- Maxhamish, B.C. b-57-L drilled and cased
- uneconomic gas flows to date

January, 1998
- Arrowhead N-65 drilled and cased
- tested rates of 28 MMcf/d with formation water

March, 1998
- Arrowhead 0-15 drilling suspended - will resume in 1999
- Netla M-23 set surface casing - will resume drilling in 1999



MISSISSIPPIAN MATTSON TESTS

February, 1997
- Unocal K-2 D&A

December, 1997
- Ocelot N-60 D&A

March, 1998
- Paramount F-36 drilled and cased

March, 1998
- d-87-I D&A

"Exploration at its finest. An underdrilled basin close to infrastructure, multiple play types with big reward potentials, technical challenge... a frontier play in our own backyard."

MANAGEMENT'S DISCUSSION & ANALYSIS

THE FOLLOWING DISCUSSION AND ANALYSIS, AS PROVIDED BY THE MANAGEMENT OF PARAMOUNT RESOURCES LTD., SHOULD BE READ IN CONJUNCTION WITH THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS INCLUDED ELSEWHERE IN THIS ANNUAL REPORT.

RECORD YEAR

Paramount is almost a "pure gas company" with 90 percent of revenue from this source

Production increased to average 163 MMcf of natural gas equivalent per day, up 14 percent

Cash flow increased to $70.9 million, up 12.4 percent

Net earnings were $23.4 million

Capital expenditures (net) exceeded $184 million, up 192 percent

Paramount follows the "successful efforts" method of accounting for its oil and gas operations. This method, unlike the alternative full cost accounting method, often generates a more conservative value for net earnings and cash flow as exploration expenditures, including exploratory dry hole costs, geological and geophysical costs, lease rentals on undeveloped properties as well as the cost of surrendered leases and abandoned wells, are expensed in the year incurred instead of being capitalized. However, to make our reported cash flow results somewhat comparable to industry practice, Paramount reclassifies geological and geophysical costs as well as surrendered leases and abandonment costs from operating to investing activities.

For the purposes of comparing annual Company unit revenues and costs, crude oil and liquids volumes have been converted to natural gas Mcfeq on the general industry standard equivalent basis of one barrel equals 10 Mcf.

PETROLEUM AND NATURAL GAS REVENUE

In 1997, 90 percent of Paramount's total petroleum and natural gas revenue was from the sale of natural gas as compared with 85 and 91 percent in 1996 and 1995, respectively. Total revenue increased by 28 percent to $128.493 million, as compared with $100.644 million in 1996 and $69.887 million in 1995. This significant increase in 1997 was almost equally provided by both volume and product price increases.

Revenue analysis ($ millions)	1997	1996	1995
Natural gas	$ 115.096	$ 85.191	$ 63.799
Crude oil and liquids	13.397	15.453	6.088
Total revenue	$ 128.493	$ 100.644	$ 69.887

Revenue variance analysis ($ millions)	1997	1996	1995
Natural gas revenues			
Volume increase (decrease)	$ 14.447	$ (3.770)	$ 8.897
Price increase (decrease)	15.458	25.162	(15.558)
Net gas revenue change	$ 29.905	$ 21.392	$ (6.661)
Crude oil and liquids revenues			
Volume increase (decrease)	$ (1.273)	$ 5.350	$ 2.894
Price increase (decrease)	(0.783)	4.015	1.361
Net crude oil and liquids revenue change	$ (2.056)	$ 9.365	$ 4.255
Combined revenue change	$ 27.849	$ 30.757	$ (2.406)

CASH FLOW NETBACKS (PER UNIT OF NATURAL GAS EQUIVALENT SALES)

The following table illustrates the change in $/Mcfeq netbacks with barrels of crude oil, liquids and royalty incomes converted to natural gas equivalents on a one barrel equals 10 Mcf basis.

	1997	1996	1995
Total natural gas sales (MMcfeq)	59,320	51,924	52,221
Total average per day (Mcfeq/d)	162.5	142.3	143.1
Composite natural gas price (revenue) per Mcfeq	$ 2.17	$ 1.94	$ 1.34
Deduct:			
Royalties	0.32	0.18	0.17
Alberta Royalty Tax Credit	(0.02)	(0.03)	(0.03)
Operating expense	0.35	0.31	0.28
Lease rentals	0.04	0.04	0.04
Interest on long-term debt	0.11	0.12	0.14
G&A and other income/expense (net)[1]	0.15	0.10	0.06
Large Corporation/Current taxes	0.02	0.00	–
Cash flow netback per Mcfeq	$ 1.20	$ 1.22	$ 0.68
As a % of the equivalent natural gas sales price	55.3	62.9	50.7

[1] Net of other income and including other expense

ROYALTY EXPENSES

The total royalty deducted from Paramount's petroleum and natural gas sales revenue in 1997 was $18.750 million as compared with $9.258 million for 1996 and $8.755 million for 1995. On a per Mcfeq basis this represents 14.8 percent of the Company's average sale price of natural gas in 1997, up from 9.3 percent and 12.7 percent for 1996 and 1995, respectively.

($ millions)	1997	1996	1995
Crown royalties	16.915	7.902	7.258
Other royalties	1.835	1.356	1.497
Royalties	18.750	9.258	8.755
$/Mcfeq	$ 0.32	$ 0.18	$ 0.17
Natural gas price (Mcfeq)	$ 2.17	$ 1.94	$ 1.34
Royalties as a % of equivalent gas price	14.8	9.3	12.7

In 1994, the Alberta Government introduced a simplified natural gas royalty requirement that allowed producers to base their Crown royalty calculations on either corporate average or government-designated reference prices. Paramount initially selected the corporate average price method, but effective January 1, 1998, switched to the Alberta Provincial Designated Reference Price. During 1996, the government provided to the industry invoices for the years 1994 and 1995 that enabled the Company to reconcile its estimated Crown royalties paid earlier with the government assessment of that owing. As a result of this delayed process, the Company was finally able to determine that the royalties paid and booked were overstated in 1995 and 1994 and, as a result, these overpayments lowered the 1996 Crown royalties otherwise payable.

ALBERTA ROYALTY TAX CREDIT

Paramount received the maximum Alberta Royalty Tax Credit (ARTC) for 1997 amounting to $1.210 million as compared to $1.495 million in 1996 and $1.475 million in 1995.

Effective January 1, 1995, the ARTC was reduced from the previous cap of $2.5 million to $2 million, together with the maximum percentage of royalties to be rebated, also reduced from 85 percent to 75 percent. This new program is based on a three-year rolling term with no sunset provision.

OPERATING EXPENSES

Operating expenses were $0.35 per Mcfeq in 1997 as compared with $0.31 per Mcfeq and $0.28 per Mcfeq for 1996 and 1995, respectively. Total 1997 operating expense was $21.023 million, as compared with $16.196 million and $14.624 million for 1996 and 1995, respectively. Very high operating costs incurred at the new Bistcho Lake sour gas plant during the start-up phase, combined with the impact of declining production volumes in the older fields and plants where operating costs are relatively fixed, were the primary reasons for the per Mcfeq cost increase in 1997 over 1996.

GENERAL AND ADMINISTRATIVE EXPENSES

Paramount does not capitalize any general and administrative (G&A) expenses, and all costs associated with gas market development are expensed into G&A.

General and administrative expenses in 1997, net of other income and expense, were $8.628 million ($0.15/Mcfeq) as compared with $5.639[1] million ($0.10/Mcfeq) in 1996 and $3.101 million ($0.06/Mcfeq) in 1995.

The $2.989 million increase in 1997 over 1996 is basically the result of higher payments of $5.291 million to employees under the Share Appreciation Rights Plan (SARP) in 1997 as compared with $1.514 million for 1996 and $34,000 for 1995. The SARP was introduced at the end of 1994 and replaced employee stock options as an incentive plan for senior employees based upon company common stock value performance without shareholder dilution.

	1997	1996	1995
Office employees at year end	53	47	48
Capital expenditures per employee ($ millions)	3.902	1.919	1.018
Production per employee (MMcfeq/d)	3.1	3.0	3.0
Cash flow per employee ($ millions)	1.340	1.343	0.736
Total expenses per MMcfeq produced ($)	0.15	0.09[1]	0.06

[1] Excluding the $1.0 million write-off of Other Assets

FINANCIAL EXPENSES

Financing expenses during 1997, representing interest paid on operating long-term bank debt, increased by 5 percent to $6.698 million ($0.11/Mcfeq) from $6.382 million ($0.12/Mcfeq) in 1996 and $7.185 million ($0.14/Mcfeq) in 1995. The Company does not capitalize any of its interest costs. Higher interest costs in 1997 were primarily the result of a higher weighted average amount of bank loans outstanding during the year in excess of the impact of a lower effective average rate of interest of 6.3 percent as compared with 7.1 percent for 1996. As at December 31, 1997, there remains an unamortized deferred foreign exchange loss of $1.817 million as compared with $1.155 million for 1996, related to a U.S. $20 million bank debt financing made in 1992. Paramount has recorded deferred foreign exchange amortization losses of $0.536 million for 1997 and $0.418 million for 1996. These non-cash amounts are included in depreciation and depletion expense for financial statement reporting purposes.

DEPRECIATION AND DEPLETION

Depreciation and depletion for 1997, excluding the amortization of foreign exchange loss of $0.536 million, as computed on a project by project unit-of-production basis, was $0.55/Mcfeq compared to $0.45/Mcfeq for 1996 and $0.47/Mcfeq for 1995. The higher depletion rate reflects largely the acquisition and construction of new properties in 1997.

DRY HOLE COSTS

Paramount expenses exploratory dry hole costs as incurred. During 1997 the Company participated in a number of "higher risk/reward" deep gas exploratory wells. There were $7.378 million in dry hole costs incurred for the current year as compared with $2.565 million and $2.150 million for 1996 and 1995, respectively.

INCOME TAXES

See Note 7 to the audited financial statements for the details of this cost. During 1997 and 1996 a wholly owned subsidiary of Paramount paid a small amount of cash income taxes. Large Corporation Capital Tax increased to $1.142 million from $0.463 million reflecting the Company's increased asset base.

Paramount has approximately $248 million of unused tax pools at December 31, 1997. These tax pools are available to reduce future years' income at varying rates of amortization for the purposes of determining income tax (with the exception of the Large Corporation Capital Tax).

Tax Pools ($ million)		
Undepreciated capital cost allowance	$	91
Cumulative Canadian oil and gas property expense		95
Cumulative Canadian exploration expense		20
Cumulative Canadian development expense		36
Non-capital business losses carry forward		5
Other		1
Combined total	$	248

Paramount does not anticipate paying any significant current income taxes in 1998 based on our forecast of financial results from operations, levels of capital reinvestment and the remaining unused tax pools available.

NET EARNINGS

Paramount has earned an average after-tax rate of return on a book basis, based upon the weighted average shareholders' equity invested, over the past three years of 15.1 percent.

($ millions)	1997	1996	1995
Net earnings	23.389	25.462	5.622
Weighted average shareholders' equity	162.3	104.6	86.4
After tax rate of return (%)	14.4	24.3	6.5

EQUITY

On November 12, 1997, the Company raised $64.279 million (net) from the equity issue from treasury of 4 million common shares pursuant to a "bought deal" with a group of underwriters, at a price of $16.50 per share before underwriting fees and issue costs. This public share offering was only the second one since the Company's Initial Public Offering in 1978. The previous public share issue was in July 1993 and was for 3.75 million common shares, adjusted for the 3:1 stock split effective June 4, 1997, at a price of $7.5833 per share to raise net proceeds of $27.7 million. A private placement flow-through share issue in the amount of $10 million was completed on November 4, 1996, resulting in the issue of 1.5 million common shares. Tax benefits renounced to shareholders in 1997 were $3.520 million (1996 – $0.930 million).

CAPITAL EXPENDITURES[1]

Capital expenditures during 1997 were a net $184.2 million, up 192 percent from $63.1 million in 1996 and $47.6 million in 1995. From its inception, the Company, in general, has always planned to expend at least all of its cash flow from operations on capital expenditures. During 1997, the Company successfully raised approximately $64.3 million net proceeds primarily from the equity share issue for the purpose of acquiring certain producing and non-producing properties for approximately $72 million, included in the $184.2 million net capital expenditure total for 1997.

($ millions)	1997	1996	1995
Drilling and seismic	52.0	24.1	23.9
Crown land purchases	9.5	9.5	9.0
Acquisition of subsidiary	0.9	14.8	–
Land/property acquisitions	77.0	11.2	0.5
Plant/gathering and equipment[2]	67.4	30.6	15.5
Subtotal	206.8	90.2	48.9
Less: Disposition proceeds	22.6	27.1	1.3
Net Total	184.2	63.1	47.6

[1] Capital Expenditures = Property and equipment plus geological and geophysical costs as disclosed by the Statement of Changes in Financial Position.
[2] 1997 Plant/gathering and equipment costs include $21.1 million allocated thereto from the total land/property acquisitions.

Not included in the above capital expenditure and disposition proceeds amounts for 1997, 1996 and 1995 were $3.242 million, $20 million and $6.364 million, respectively (net book value basis), of property swap transactions made with oil and gas producers to facilitate Paramount's ongoing asset rationalization objectives. Paramount's strategy is to increase ownership in existing areas of major asset concentration while divesting smaller operated or non-operated ownership, thereby focusing corporate resources on areas where we can achieve significant impact on the success of the Company.

MARKETING ARRANGEMENTS

Approximately 62 percent of Paramount's natural gas sales were to long-term contracts sold through gas aggregators and direct sales purchasers during 1997 as compared with 76 percent and 77 percent for 1996 and 1995, respectively.

NATURAL GAS SALES PER MARKET GROUP

		1997		1996		1995	
		Bcf	%	Bcf	%	Bcf	%
Long term contracts							
Aggregators							
Pan Alberta	Midwestern U.S., the U.S. Pacific Northwest, California and Quebec	17.9	33.0	15.8	34.0	15.5	31.5
Progas	Northeastern U. S.	5.0	9.2	8.8	19.0	9.6	19.5
Canstates/Temco	Northeastern U. S.	4.7	8.7	4.6	9.9	4.3	8.7
		27.6	50.9	29.2	62.9	29.4	59.7
Direct sales Selkirk	New York State	6.0	11.1	6.1	13.2	8.5	17.3
Subtotal		33.6	62.0	35.3	76.1	37.9	77.0
Short term markets							
Spot – California		11.2	20.7	11.0	23.7	9.6	19.5
Spot – Alberta/B.C.		9.4	17.3	0.1	0.2	1.7	3.5
Total		54.2	100.0	46.4	100.0	49.2	100.0

HEDGING ACTIVITIES AND DEFERRED REVENUE

During 1997, Paramount realized $1.226 million (1996 – $2.087 million, 1995 – $8.033 million) of net revenue primarily related to the settlement of natural gas commodity hedging contracts that were previously put in place to shelter the Company somewhat from declining gas prices. Paramount's accounting policy is to recognize these gains in the accounting years of related production. The amounts of deferred hedging gains that will be recognized in revenue by the Company in 1998 and 1999 are $1.108 million and $1.344 million, respectively. Deferred revenue recognition timing extends through the years 1998 to 2003 inclusive.

BANK DEBT, LIQUIDITY AND RISK MANAGEMENT

One of the key components of Paramount's capitalization is debt funding. Properly managed, debt funding can enhance growth and profitability to shareholders without dilution or unnecessary risk. Paramount has historically utilized bank debt primarily for new plant development capital expenditures. As a result, over the past five years, the Company has maintained a weighted average net debt to cash flow ratio of approximately 1.75:1. The Company plans to continue utilizing debt financing for development capital purposes and believes that a net debt to cash flow ratio of 2:1 is prudent in conjunction with our other risk management strategies employed related to debt matters. As at December 31, 1997, approximately $59 million, or 42.9 percent of the $137.4 million net bank debt outstanding (including working capital), was subject to fixed interest rate agreements. The balance of debt was subject to floating interest rates applicable to financial instruments known as bankers' acceptances that generally provide for a lower rate of interest than the alternative bank prime rate cost of borrowing.

Also of significant importance to the Company is the U.S.$/Cdn.$ exchange ratio since virtually all of the natural gas sales and crude oil sales of the Company are made into and priced effectively on U.S. markets. Any significant improvement in the Canadian dollar relative to its U.S. counterpart would have a material impact on the wellhead price received for our production. To alleviate this risk, Paramount has entered into currency swap agreements that have fixed the exchange rates on U.S. $78.320 million of future production revenue over the next six years at Cdn. $110.4 million. In addition, the Company has a U.S. $20 million bank loan and as such this is also designated as a currency hedge.

Paramount's business plan for 1998 projects net capital expenditures once again to be approximately equal to free cash flow from operations. The Company's combined banking credit facilities are currently at $170 million, comprised of $160 million term and $10 million demand operating.

Paramount's debt and equity capital structure at December 31, 1997, was as follows:

	AT COST			AT MARKET[1]		
($ millions, except per share)	Amount	%	$/Share[2]	Amount	%	$/Share[2]
Common share equity	115.2	37.2	2.14	917.2	82.5	17.00
Net bank debt (including working capital deficiency)	137.4	44.4	2.55	137.4	12.4	2.55
Deferred taxes	57.1	18.4	1.05	57.1	5.1	1.05
Total	309.7	100.0	5.74	1,111.7	100.0	20.60

[1] Close at December 31, 1997 – $17.00/share.
[2] At December 31, 1997 – 53,953,600 common shares.

BUSINESS RISKS

Crude oil and natural gas operations involve certain risks and uncertainties and are affected by factors beyond the control of the Company. These include the uncertainty of discovering commercial quantities of new reserves, the marketability of reserves discovered or acquired, the risks and hazards associated with such operations and commodity and currency price volatility.

Paramount manages operating risk by focusing activities in areas where it believes it has sufficient technical expertise to be successful while maintaining a diverse inventory of geological prospects. The Company's historical dominant position in the northeastern Alberta shallow gas area has provided a number of low risk opportunities which can be quickly converted into cash flow at maximum rates of return. More recently Paramount has broadened its core areas to include the Kaybob area of west central Alberta; the Zaremba area of northeastern British Columbia; and the Bistcho Lake area of northwestern Alberta. The Liard Basin in the southern Northwest Territories adds a high risk/return component to our asset base. In addition, Paramount has participated in additional important oil discoveries in the Midale area of Saskatchewan at Harthaven and Froude, and at Zaremba, British Columbia. The increase in oil production forecast for 1998 will diversify the revenue base and thereby reduce the dependency of Paramount on natural gas prices.

YEAR 2000 COMPUTER ISSUE

The "Year 2000 issue" is a general term used to refer to certain business implications that may arise on the arrival of the new millenium. In simple terms, these implications arise largely because it has been normal practice for computer hardware and software to use only two digits rather than four to record the year in date fields. On January 1, 2000, when the year is designated as"00", many computer systems could either fail completely or create erroneous data as a result of misinterpretation of the year. In some cases, date sensitive systems may begin to fail prior to January 1, 2000. The results of failures may range from relatively minor processing inaccuracies to catastrophic system malfunctions. Failures may affect not only hardware and software used to process everyday business information for the Company, but also any embedded data chips in computers that control our processing plant machinery, robotics, office equipment, elevators and building climate and security systems in general. As well, many of our major equipment suppliers, service contractors, pipeline transportation systems and lenders, to name a few, may be affected to varying degrees.

Paramount has established a special project team for the purpose of reporting to senior management and the Board of Directors, on an ongoing basis, the impact of this concern on both Paramount's internal business processes and external business relationships and dependencies. The project's initial objectives are to establish and identify all our requirements, deliverables, resources, timelines and remedial action plans for the successful resolution of these concerns. Paramount has also retained special consultants in this field to assist us in these endeavours. An initial budget of $50,000 for external costs has been set in the matter.

The Year 2000 issue certainly gives rise to uncertainties that are potentially very significant for the Company. The petroleum industry is highly dependent on information technology for all its primary and secondary business functions.

At this time, the Company is unable to state that it is Year 2000 compliant; however, as the special project team completes its tasks and meets its objectives, Paramount expects to be in a position to report on this matter on an ongoing basis in our quarterly reports to shareholders as well as directors and all other important stakeholders.

KYOTO PROTOCOL ON GREENHOUSE GAS EMISSIONS

Canada is signatory to an International Treaty to achieve a 6 percent reduction from 1990 greenhouse gas emission levels by 2008-2012, which represents approximately a 25 percent cut from current levels. At this time, the Company does not know what final course of action the Canadian or United States governments will take in this regard and accordingly cannot measure the potential risk to our business.

BUSINESS PROSPECTS

A review of the Company's 1998 business prospects is found in the President's Message and in the Review of Operations.

1998 CASH FLOW FORECAST AND SENSITIVITY ANALYSIS

The following analysis shows the Company's 1998 cash flow sensitivity using the following base assumptions.

a) 1998 production	
Natural gas	230 MMcf/d
Crude oil/liquids	3,500 Bbl/d
b) 1998 corporate average pricing	
Natural gas	$1.90/Mcf
Crude oil/liquids	$21.00/Bbl
c) Cash flow (after tax)	$110 million
d) 1998 capital budget (net of disposition proceeds)	$120 million
Cash flow sensitivity:	
Gas sales change of 10 MMcf/d	$6.3 million
Gas price change of $0.10/Mcf	$4.4 million
Oil and liquids sales change of 100 Bbl/d	$0.6 million
Oil and liquids price change of Cdn. $1.00/Bbl	$1.1 million
Foreign exchange rate change of $0.01 Cdn.	$1.0 million
Interest rate change of 1%	$1.5 million

AUDITORS' REPORT

TO THE SHAREHOLDERS OF PARAMOUNT RESOURCES LTD.

We have audited the consolidated balance sheets of Paramount Resources Ltd. as at December 31, 1997 and 1996, and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young

Chartered Accountants

March 18, 1998
Calgary, Canada

MANAGEMENT'S REPORT

The accompanying financial statements of Paramount Resources Ltd. and all the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The financial statements have been prepared by Management in accordance with generally accepted accounting principles. When alternative accounting methods exist, Management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Audit Committee of the Board of Directors comprises a majority of non-management directors. The Committee meets periodically with Management as well as the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibility, and to review the Annual Report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The financial statements have been audited by Ernst & Young, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young have full and free access to the Audit Committee and Management.

C. H. Riddell

Clayton H. Riddell
President and
Chairman of the Board

G. Barry Padley, C. A.
Chief Financial Officer and
Corporate Secretary

CONSOLIDATED BALANCE SHEETS

As at December 31	1997	1996
(thousands)		
ASSETS		
Current		
Cash	$ 165	$ 2
Accounts receivable	49,328	46,684
Alberta Royalty Tax Credit receivable	120	124
Inventories (note 2)	10,070	5,002
Prepaid expenses	2,981	570
	62,664	52,382
Petroleum and natural gas properties (note 3)	404,046	250,071
Other assets (note 4)	3,244	4,010
	$ 469,954	$ 306,463
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued charges (note 8)	$ 60,533	$ 69,332
Bank loans (note 5)	139,518	63,046
Provision for site restoration and abandonment costs	2,765	2,052
Deferred revenue	6,274	7,500
Deferred income taxes	57,098	43,799
Commitments (note 14)		
Shareholders' Equity		
Share capital (note 6)		
Issued and outstanding		
53,953,600 common shares	115,166	53,063
(1996 – 49,203,600 common shares)		
Retained earnings	88,600	67,671
	203,766	120,734
	$ 469,954	$ 306,463

See accompanying notes.

On Behalf of the Board

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

For the years ended December 31	1997	1996
(thousands except for per share amounts)		
Revenue		
Petroleum and natural gas sales (notes 11 and 12)	$ 128,493	$ 100,644
Royalties	(18,750)	(9,258)
Alberta Royalty Tax Credit	1,210	1,495
Other income	1,967	333
	112,920	93,214
Expenses		
Operating	21,023	16,196
Interest on long-term debt	6,698	6,382
General and administrative	9,405	5,972
Dry hole costs	7,378	2,565
Lease rentals	2,498	1,955
Geological and geophysical costs	1,952	2,921
Depreciation and depletion	33,053	23,760
Gain on sales of property and equipment	(12,560)	(4,041)
Provision for site restoration and abandonment costs	713	558
Other expenses (note 13)	1,190	–
	71,350	56,268
Income before income taxes	41,570	36,946
Large Corporation Capital Tax (note 7)	1,142	463
Income taxes – current (note 7)	53	139
– deferred (note 7)	16,986	10,882
	18,181	11,484
Net earnings for the year	23,389	25,462
Net earnings for the year per share	$ 0.47	$ 0.53
Weighted average number of shares outstanding (thousands)	49,782	47,937
Retained earnings, beginning of year	$ 67,671	$ 43,799
Add net earnings for the year	23,389	25,462
	91,060	69,261
Dividends paid	2,460	1,590
Retained earnings, end of year	$ 88,600	$ 67,671

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31	1997	1996
(thousands except for per share amounts)		
Operating activities		
Net earnings for the year	$ 23,389	$ 25,462
Add (deduct) non-cash items		
Depreciation and depletion	33,053	23,760
Dry hole costs	7,378	2,565
Gain on sales of property and equipment	(12,560)	(4,041)
Provision for site restoration and abandonment costs	713	558
Write-off of other assets	–	1,000
Deferred income taxes	16,986	10,882
Add items not related to operating activities		
Geological and geophysical costs	1,952	2,921
Cash flow from operations	70,911	63,107
Deferred revenue	(1,226)	310
Changes in non-cash working capital items (note 9)	(4,728)	4,934
	64,957	68,351
Investing activities		
Property and equipment expenditures	(203,904)	(72,513)
Geological and geophysical costs	(1,952)	(2,921)
Acquisition of subsidiary (note 10)	(949)	(14,777)
Proceeds from sale of property and equipment	22,636	27,084
Changes in non-cash working capital items (note 9)	(14,192)	11,512
	(198,361)	(51,615)
Financing activities		
Bank loans – operating (decrease) increase	76,472	(23,066)
Share capital issued, net of related costs	60,753	9,045
Cancellation of share option	–	(1,100)
Deferred foreign exchange loss increase	(1,198)	(132)
Dividends paid	(2,460)	(1,590)
	133,567	(16,843)
Increase (Decrease) in cash	163	(107)
Cash, beginning of year	2	109
Cash, end of year	$ 165	$ 2
Cash flow from operations per share before changes in non-cash working capital items	$ 1.42	$ 1.32
Weighted average number of shares outstanding (thousands)	49,782	47,937

See accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All of the Company's operations are in the oil and gas industry. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles within the framework of the significant accounting policies summarized below.

PRINCIPLES OF CONSOLIDATION

The financial statements include the accounts of Paramount Resources Ltd. and its wholly owned subsidiaries (collectively the "Company").

SUCCESSFUL EFFORTS ACCOUNTING

The Company follows the Successful Efforts Method of accounting for its oil and gas operations. Under this method exploration expenditures, including geological and geophysical costs, lease rentals and exploratory dry hole costs, are charged to expense as incurred. Leasehold acquisition costs, including costs of drilling and equipping successful wells, are capitalized. Royalty interests are earned from farmout agreements with respect to which no costs are recorded. The net cost of abandoned wells and surrendered leases are charged to expense in the year of abandonment or surrender. Gains or losses are recognized on the disposition of properties and equipment.

Depletion and depreciation of oil and gas properties including well development expenditures, production equipment, gas plants and gathering systems are provided on the unit-of-production method based on estimated proven recoverable reserves of each producing property or project. Depreciation of other equipment is provided on a declining balance method at rates varying from 20 to 30 percent.

The carrying value of capital assets, including acquired probable reserve costs, are subject to uncertainty associated with the quantity of oil and gas reserves, future production rates, commodity prices and other factors. Future events could result in material changes to the carrying values recognized in the financial statements.

The net amount at which petroleum and natural gas costs on a property or project are carried is subject to a cost recovery test.

JOINT ACTIVITIES

Certain of the Company's oil and gas exploration, development and production activities are conducted jointly with others. The Company records only its proportionate interest in these activities.

INVENTORY OF SUPPLIES

Inventory of supplies is carried at the lower of cost, on a first-in first-out basis, and net realizable value.

INVENTORY OF NATURAL GAS IN STORAGE

Natural gas in storage is carried at the lower of cost and net realizable value. Cost includes all amounts incurred to produce the related gas, transport it to the storage facility and the cost of storage.

DEFERRED COSTS – JEC

Remaining deferred costs in an oil and gas joint exploration corporation (JEC) are being amortized, as the related resource tax deductions are utilized in the current period, as an offset against the benefits realized.

DEFERRED REVENUE – HEDGING TRANSACTIONS

The gains and losses from natural gas future and forward currency exchange contracts used to reduce the Company's exposure to market fluctuations on a portion of its production settled in U.S. dollars are recognized in the same period as the related production revenues.

FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in U.S. dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at the rate in effect at the time the transaction occurs. Gains and losses on translation are reflected in income when incurred except for unrealized gains or losses on translation of long-term bank loans which are deferred and amortized on a straight-line basis over the expected minimum repayment period.

PROVISION FOR SITE RESTORATION AND ABANDONMENT COSTS

The estimated future costs related to site restoration and abandonment are accrued in the financial statements. This estimate, net of expected recoveries, includes the cost of equipment removal and environmental cleanup based upon regulations and economic circumstances at year end.

FLOW-THROUGH SHARES

The Company has financed a portion of its petroleum and natural gas exploration activities with a flow-through share issue. Under this type of financing arrangement, shares are issued at a fixed price and the proceeds are used to fund exploration and development activities within a defined time period. The exploration and development expenditures funded by flow-through share expenditures are renounced to investors in accordance with tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are renounced.

2. INVENTORY

Inventory consists of the following:

($ thousands)	1997	1996
Supplies	6,564	4,630
Natural gas in storage	3,506	372
	10,070	5,002

3. PETROLEUM AND NATURAL GAS PROPERTIES

($ thousands)	1997		1996	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
Petroleum and natural gas properties	335,553	54,878	219,524	40,747
Gas plants, gathering systems and production equipment	198,869	76,836	129,598	59,298
Other	4,346	3,008	3,647	2,653
	538,768	134,722	352,769	102,698
Net book value	404,046		250,071	

As at December 31, 1997, the cost of petroleum and natural gas properties includes approximately $162,558,000 (December 31, 1996 – $121,889,000) relating to properties from which there is currently no production and which are, therefore, not being depleted.

4. OTHER ASSETS

($ thousands)	1997	1996
Deferred costs – JEC	1,427	2,855
Deferred foreign exchange loss	1,817	1,155
	3,244	4,010

5. BANK LOANS

Bank loans consist of the following:

($ thousands)	1997	1996
Bankers' acceptances – 30 days at an average rate 5.4% (1996 – 3.8 %)	80,408	5,134
Bankers' acceptances – fixed rate	30,500	30,500
LIBOR advances (U.S. $20,000,000) – fixed rate	28,610	27,412
	139,518	63,046

The borrowing limit under Syndicated Extendible Revolving Term Credit Facilities ("Credit Facilities") at December 31, 1997, is $160,000,000. The Credit Facilities are available on a demand revolving basis up to June 30, 1998, at which time (i) outstanding advances thereunder may be converted to a Reducing Non-Revolving Term Facility having a term of five years and repayable in 60 equal monthly payments, and (ii) the undrawn portion of the Credit Facilities will be cancelled. This conversion date may be extended at the sole discretion of the banks, upon the written request of the Company. In addition, the Company has a $10,000,000 Operating Facility provided by the agent to the syndication banks.

Collateral pledged to the banks includes a first floating charge debenture covering all assets in the amount of $250,000,000.

The Company has an interest rate exchange agreement on $30,500,000 with its bank at a fixed rate of 8.4 percent to May 11, 1998. The bank may at its option, immediately before termination, extend the term of this rate agreement to August 11, 2000. (Alternative Bankers' Acceptance 30 day floating rate for Paramount was 4.52 percent on December 31, 1997.)

The Company has an interest rate exchange agreement on U.S. $20,000,000 with its bank which has a termination date of October 26, 1999, at a fixed rate of 6.5 percent. (Alternative LIBOR 30 day floating rate for Paramount was 5.68 percent on December 31, 1997.)

6. SHARE CAPITAL

Authorized – an unlimited number of non-voting preferred shares without nominal or par value, issuable in series, and an unlimited number of common shares without nominal or par value.

Changes in common share capital during the year were as follows:

($ thousands)	1997		1996	
Issued and outstanding:	Shares	$,000's	Shares	$,000's
Beginning of year	49,203,600	53,063	47,703,600	44,628
Cancellation of share option	–	–	–	(1,100)
Flow-through shares issued for cash	–	–	1,500,000	10,000
Issued for cash on the exercise by a director and officer	750,000	1,344	–	–
Issued pursuant to a prospectus dated November 4, 1997	4,000,000	66,000	–	–
	53,953,600	120,407	49,203,600	53,528
Deduct:				
Tax benefits relating to qualifying expenditures renounced to flow-through shareholders	–	(3,520)	–	(930)
Tax benefit relating to cancellation of share option	–	–	–	491
Share issue costs, net of deferred tax benefits	–	(1,721)	–	(26)
End of year	53,953,600	115,166	49,203,600	53,063

On May 15, 1997, the shareholders of the Corporation approved a three-for-one stock split of all of the outstanding common shares. The record date for the stock split was June 4, 1997. Accordingly, all references to the number of common shares and per share information have been adjusted to reflect the stock split retroactively.

Effective October 1, 1996, an option agreement, in favour of an unrelated joint venture party, to purchase 1,500,000 shares of the Company at $7.583 per share was terminated in consideration for the payment of $1.1 million. As at December 31, 1997, no share options were outstanding (1996 – 750,000 common shares exercisable at an option price of $1.792 per share up to December 19, 1997).

7. INCOME TAXES

Income taxes differ from the calculated tax obtained by applying the Canadian corporate tax rate to the income for the year before income taxes. The differences are as follows:

($ thousands)	1997	1996
Corporate tax rate	44.62%	44.62%
Calculated income tax expense	18,549	16,485
Add (deduct) the income tax effect of:		
Crown charges disallowed	8,242	3,944
Utilization of renounced resource tax expenses, net of amortization	(1,887)	(1,911)
Federal resource allowance	(8,458)	(7,628)
Alberta Royalty Tax Credit	(540)	(667)
Non-allowable depletion	1,056	601
Other	77	197
Large Corporation Capital Tax	1,142	463
Income tax provision	18,181	11,484
Represented by:		
Large Corporation Capital Tax	1,142	463
Current income taxes	53	139
Deferred income taxes	16,986	10,882
	18,181	11,484

8. RELATED PARTY TRANSACTIONS

One of Paramount's directors is an officer of two entities which participate in oil and gas properties and gas plants operated by Paramount. During 1997, those entities' shares of revenues and royalties from such properties totalled approximately $2,100,000 (1996 – $3,200,000), of which approximately $157,000 (1996 – $156,000) is included in accounts payable at December 31, 1997.

9. CHANGES IN NON-CASH WORKING CAPITAL ITEMS

($ thousands)	1997	1996
Accounts receivable	(2,645)	(22,244)
Alberta Royalty Tax Credit receivable	4	2
Inventory	(5,068)	972
Prepaid expenses	(2,412)	(256)
Accounts payable and accrued charges	(8,799)	37,972
Change in non-cash working capital	(18,920)	16,446
These changes relate to the following activities:		
Operating activities	(4,728)	4,934
Investing activities	(14,192)	11,512
	(18,920)	16,446

10. ACQUISITION

Effective August 1, 1996, the Company acquired 100 percent of the shares outstanding of a company now renamed Arwaves Resources Ltd. ("Arwaves") that owns producing and non-producing properties located in Alberta. The acquisition has been accounted for by the Purchase Method.

The acquisition was financed from an available undrawn portion of the Company's current Credit Facilities.

The purchase price has been allocated to assets acquired based on their estimated fair values as follows:

($ thousands)	
Undeveloped properties	2,159
Producing properties	13,076
Tangible production equipment and lease facilities, gathering systems	3,620
Deferred income taxes	(3,895)
Provision for site restoration and abandonment	(183)
Purchase price paid (Cash)	$ 14,777

Acquired assets did not include any working capital or debt. The Company has been indemnified by the vendor with respect to possible liabilities that may subsequently arise related to certain pre-acquisition activities. In 1997 the purchase price was increased by $909,000 pursuant to the final resolution of the amounts of tax pools and losses carry forward available to Arwaves.

11. EXPORT SALES

During the year ended December 31, 1997, approximately 82 percent (1996 – 81 percent) of the Company's revenue was derived from sales made directly or indirectly to customers in the United States.

12. HEDGING TRANSACTIONS

The following hedging contracts were outstanding as at December 31, 1997.

The Company has entered into currency index swap transactions that remain outstanding, fixing the exchange rates on receipts of U.S. $78,320,000 for Cdn. $110,400,000 and over the next six years at Cdn. $1.41. The Canadian dollar/U.S. dollar closing conversion rate was $1.4305 as at December 31, 1997 ($1.3712 – 1996). Of the total, U.S. $17,200,000 (Cdn. $24,018,000) is contracted to be settled during 1998 with payments exchanged on a monthly basis (1999 – U.S. $15,950,000/Cdn. $22,405,000).

The Company entered into several commodity swap transactions in 1995 that were outstanding as at December 31, 1996. The swaps involved the Company selling natural gas at Empress, Alberta, on a NYMEX-based price less a basis differential for periods from June 1, 1998 to June 1, 2003, on 13,190,000 MMBtu of natural gas. On February 29, 1996, the aforementioned commodity swap agreements were settled in full and closed with no future obligations by either counterpart, upon receipt of $2,087,000 cash by Paramount, which amount has been included in Deferred Revenue.

During 1997, $1,226,000 of net gains related to hedging contracts (1996 – $1,675,819) are included in natural gas sales revenue.

Borrowings under bank credit facilities and the issuance of commercial paper are for short periods and are market rate based; thus, carrying values approximate fair value. Fair values for derivative instruments are determined based on the estimated cash payment or receipt necessary to settle the contract at December 31. Cash payments or receipts are based on discounted cash flow analysis using current market rates and prices.

The fair values of other financial instruments, including cash and short-term investments, accounts receivable, and accounts payable and accrued liabilities, approximate their carrying values.

13. OTHER EXPENSES

A dispute with a third party by the Company together with other working interest owners of a gas plant was fully resolved in 1997 by the payment of a cash settlement of which Paramount's portion was $1,190,000.

14. COMMITMENTS

The Company has guaranteed the loans of an investee company in the amount of $4.0 million.

The Company has letters of guarantee credit totalling $5.0 million outstanding with a Canadian Chartered Bank.

THE CORPORATION AND GENERAL DEVELOPMENT OF THE BUSINESS

Paramount Resources Ltd. was incorporated under the laws of the Province of Alberta on February 14, 1978. The Company commenced operations as a public company listed on the Alberta Stock Exchange on December 18, 1978, with a successful Initial Public Offering that raised $4.687 million and a share exchange for the crude oil and natural gas assets of a private company, Paramount Oil & Gas Ltd. with book value of $341,000.

On November 30, 1984, Paramount was listed on The Toronto Stock Exchange (TSE).

The shares split on a three-for-one basis on September 21, 1989. On June 4, 1997, Paramount's common shares were again split on a three-for-one basis, resulting in 49,203,600 issued and outstanding common shares. Accordingly, all historical share information reported in this AIF has been restated to this new basis.

Since inception, the Company has raised share capital in public markets on only two occasions. On November 4, 1997, Paramount issued 4.0 million common shares at $16.50 per share pursuant to a prospectus dated November 4, 1997. Previously on September 10, 1993, Paramount issued 3.750 million common shares at $7.583 per share to net $27.10 million.

As at December 31, 1997, the company had 53,953,600 shares outstanding with an indicated market capitalization of $917.2 million based upon the $17.00 per share closing price on the TSE.

Paramount was added to the TSE 300 Composite Index (Subgroup 3.2 Oil & Gas Producers) and the TSE 200 Index, effective January 16, 1998.

The Company does not have any subsidiary whose total assets would constitute more than 10 percent of the consolidated assets of the Company as at December 31, 1997.

The head and principal office of the Company is located at Suite 4000 First Canadian Centre, 350 Seventh Avenue S.W., Calgary, Alberta T2P 3W5.

MANAGEMENT OF THE COMPANY

The management of Paramount Resources Ltd. is provided by five officers two of whom currently also serve as directors. There are six non-management directors to complete the Board of Directors. The names, municipality of residence, position with Paramount and principal occupation of each of the officers and directors can be found in the Management Information Circular dated as at March 19, 1998.

All directors stand for election at each Annual Meeting of the Company. A new Board of Directors was nominated and elected at the 1997 Annual Meeting held on May 15. Subsequently, Mr. W. R. Duncan, Vice President, Operations, resigned from the Board on September 2, 1997. The 1998 Annual Meeting will be held on May 14 in Calgary. As of December 31, 1997, all the directors and officers of the Company as a group beneficially owned 28.614 million common shares, representing 53.04 percent of the 53,953,600 issued and outstanding common shares of Paramount Resources Ltd.

DESCRIPTION AND DEVELOPMENT OF BUSINESS

Paramount Resources Ltd. is a Canadian natural resource company which explores for, develops, produces and markets petroleum and natural gas throughout western Canada, primarily in Alberta, but also in British Columbia, Saskatchewan and the Northwest Territories.

Exploration efforts have historically been concentrated on the high deliverability shallow gas reserves located in northeastern Alberta. Sales of natural gas from this area accounts for 78 percent of the Company's total natural gas production. This area continues to be an important area of growth and activity.

Paramount's net production (including non-operated plants) has grown from 55 MMcf/d in 1988 to 210 MMcfeq as at December 31, 1997. Ongoing exploration and development activities are designed to establish new reserves of oil and natural gas and increase the productive capacity of existing fields. In order to optimize its net capacity and hence control costs, the Company strives to: increase ownership

and throughput in existing plants as economic opportunities arise; occasionally dispose of lower working interest properties; maintain a high working interest in low to medium risk projects; and enter into joint venture arrangements on select high risk/high return exploration prospects.

At December 31, 1997, approximately 75 percent of Paramount's proven and probable natural gas reserves were located in Alberta, 18 percent were located in the Northwest Territories, with the balance in British Columbia and Saskatchewan. Oil and natural gas liquids reserves are 32 percent located in Alberta, 62 percent in Saskatchewan, with the remainder in British Columbia and the Northwest Territories. Paramount is operator of 80 percent of its current natural gas production and approximately 43 percent of its current oil production.

In addition to our historical focus on shallow gas in northeastern Alberta, Paramount is continuing to actively explore for petroleum and natural gas reserves in central Alberta, and British Columbia, southeastern Saskatchewan and the Northwest Territories. In 1996, the Company established its first natural gas and crude oil production from British Columbia. Efforts are continuing in the Northwest Territories with the drilling of 6 wells during the 1997/98 winter season. The development of new core areas ensures adequate supply for existing gas markets and contracts, and is accelerated when markets are sufficient to support additional supply.

COMPETITIVE CONDITIONS

The petroleum and natural gas industry is highly competitive in all phases. Paramount competes with numerous other participants in the search for and acquisition of crude oil and natural gas properties and in the marketing of these commodities. Successful reserve replacement in the future will depend not only on the further development of present properties, but also on the ability to select and acquire suitable prospects for exploratory drilling.

Paramount has firm service for most of its natural gas production as opposed to interruptible allocations on pipeline systems. The Company closely monitors the daily production from all of its plants ensuring that contractual obligations will be met. The operational policy of producing excess gas into storage to maintain production, even when markets may not be available, ensures the reliability of the supply of natural gas during peak demand periods and reduces unit operating costs. Balancing contractual commitments, natural gas sales are directed to those markets where the Company believes prices will be best, and currently over 80 percent of the Company's gas production is exported to the the United States.

RECENT DEVELOPMENTS

During May and June 1997, the Alberta Energy and Utilities Board held an inquiry to determine what, if any, adverse effects were related to associated gas production prior to bitumen production in the oilsands area. Paramount has significant production in this area and was an active participant in the hearing. The Board published their findings March 25, 1998, which are, in summary, that the Board will:

- allow associated gas production in the oilsands areas from wells drilled and completed by July 1, 1998, subject to the resolution of any concerns raised by oilsands leaseholders or the Board on its own initiative;
- require concurrent production approval for the production of all associated gas in the oilsands areas from wells drilled after July 1, 1998;
- require, effective July 1, 1998, all new wells in the oilsands areas to be drilled to the base of the oilsands zone;
- develop a notification process, in consultation with the affected parties, to advise leaseholders of prospective developments;
- support modifications to the existing lease tenure system in the oilsands areas to reduce resource development conflicts; and
- investigate the means of conducting further research on the effects of concurrent gas and bitumen production.

It is Paramount's view that if all parties work together in a spirit of co-operation, they will each be able to conduct their business with minimum conflict. Paramount will do what it can to work with oilsands rights holders and the Alberta Energy and Utilities Board to this end.

ENVIRONMENTAL PROTECTION

Paramount has in place an Environmental Committee of the Board of Directors comprising of three non-management directors of the Company. The tenet of the Company's environmental policy is as follows:

"Paramount Resources Ltd. "Paramount" is committed to protecting the environment, to maintaining public health and safety, and to compliance with all applicable environmental laws, regulations and standards. Paramount will do all that it reasonably can to ensure that sound environmental practices are followed in all of its operations and activities."

The Committee is guided by a specific set of principles to ensure that this policy is supported. These principles apply to all the employees of Paramount and are designed to make sure that all applicable environmental laws, regulations and standards are complied with. The Company monitors all activities and makes reasonable efforts to ensure that companies who provide services to Paramount operate in a manner consistent with its environmental policy.

HUMAN RESOURCES

At January 1, 1998, Paramount had 53 full time head office employees and 46 full time employees at field locations. The Company's compensation of full time employees includes a combination of salary, benefits, participation in either a share appreciation rights plan or a company-assisted share purchase savings plan. Shares under the savings plan are purchased in the marketplace by the plan trustee.

LAND

The following table sets forth Paramount's land position at December 31, 1997. The total Company holdings are 3,554,869 gross (2,032,019 net) acres. Approximately 34 percent of the Company's gross lands are deemed productive and 66 percent are considered undeveloped.

	1997		1996		1995		1994		1993	
(thousands of acres)	**Gross**	**Net**	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Undeveloped Land										
Alberta	**1,504.9**	**919.5**	1,175.4	786.0	1,150.9	703.6	1,174.8	697.5	816.3	548.3
British Columbia	**99.3**	**43.7**	64.0	35.6	48.2	33.0	43.4	34.3	68.8	58.1
Saskatchewan	**438.0**	**145.3**	100.1	17.4	2.5	0.6	–	–	–	–
Northwest Territories	**309.2**	**114.7**	239.6	93.4	122.8	105.6	122.8	105.6	50.9	32.7
Subtotal	**2,351.4**	**1,223.2**	1,579.1	932.4	1,324.4	842.8	1,341.0	837.4	936.0	639.2
Acreage assigned reserves										
Alberta	**1,091.2**	**738.6**	652.5	485.3	962.8	579.3	904.7	563.7	888.6	556.1
British Columbia	**15.7**	**8.5**	4.4	2.2	5.3	3.1	2.0	1.1	1.3	0.6
Saskatchewan	**50.9**	**22.0**	1.9	0.4	0.5	0.1	3.5	0.7	3.5	0.7
Northwest Territories	**45.7**	**39.7**	50.3	44.0	50.3	44.0	50.3	44.0	46.3	40.9
Subtotal	**1,203.5**	**808.8**	709.1	531.9	1,018.9	626.5	960.5	609.5	939.8	598.3
Total Acres	**3,554.9**	**2,032.0**	2,288.2	1,464.3	2,343.3	1,469.3	2,301.5	1,446.9	1,875.8	1,237.5

DRILLING ACTIVITY

This table analyzes the results of Paramount's drilling activity over the last five years.

	1997		1996		1995		1994		1993	
	Gross	**Net**	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Development Wells										
Gas	**58.0**	**43.8**	49.0	20.3	67.0	31.1	66.0	38.0	21.0	16.3
Oil	**11.0**	**2.2**	14.0	3.6	4.0	4.0	5.0	4.8	–	–
Standing/service	**20.0**	**7.1**	1.0	0.5	–	–	–	–	–	–
Dry	**4.0**	**3.0**	3.0	2.0	5.0	2.4	5.0	3.1	2.0	1.5
Subtotal	**93.0**	**56.1**	67.0	26.4	76.0	37.5	76.0	45.9	23.0	17.8
Exploration Wells										
Gas	**23.0**	**10.1**	28.0	15.7	34.0	17.0	15.0	12.7	13.0	9.3
Oil	**17.0**	**3.2**	3.0	0.9	3.0	2.2	2.0	2.0	4.0	4.0
Oil/Gas	–	–	–	–	–	–	1.0	1.0	1.0	1.0
Standing/service	**8.0**	**2.5**	2.0	0.5	–	–	–	–	–	–
Dry	**6.0**	**1.5**	7.0	1.5	3.0	2.0	5.0	4.0	5.0	4.5
Subtotal	**54.0**	**17.3**	40.0	18.6	40.0	21.2	23.0	19.7	23.0	18.8
Total Wells	**147.0**	**73.4**	107.0	45.0	116.0	58.7	99.0	65.6	46.0	36.6

OIL AND NATURAL GAS WELLS

As at December 31, 1997, Paramount had the following number of producing oil and natural gas wells and non-producing wells capable of production. All of the Company's wells capable of production are located in Canada.

	PRODUCING		NON-PRODUCING	
As at December 31, 1997	Gross	Net	Gross	Net
Crude oil wells				
Alberta	21	9.9	12	9.1
British Columbia	2	1.2	2	1.1
Saskatchewan	40	9.1	19	4.5
Northwest Territories	2	1.8	7	6.1
Subtotal	65	22.0	40	20.8
Crude oil and gas wells				
Alberta	1	0.2	–	–
British Columbia	–	–	–	–
Saskatchewan	–	–	–	–
Northwest Territories	–	–	1	0.9
Subtotal	1	0.2	1	0.9
Natural gas wells				
Alberta	536	393.0	502	376.2
British Columbia	9	5.2	10	5.2
Saskatchewan	65	31.5	4	1.3
Northwest Territories	–	–	11	8.5
Subtotal	610	429.7	527	391.2
Total	676	451.9	568	412.9

	Gross	Net
Total Producing and Non-Producing Wells	1,244	864.8

The above represents a significant increase from December 31, 1996 when Paramount had 725 gross (498.8 net) total producing and non-producing wells.

RESERVES

Paramount's reserves of crude oil, natural gas liquids, and natural gas are located in Canada. A five-year review of reserves is outlined in the following tables. The reserves of Paramount are determined through engineering evaluations completed by McDaniel & Associates Consultants Ltd., Sproule Associates Limited and Gilbert Lausten Jung Associates Ltd., of Calgary, Alberta. Probable reserves reported in the tables below have been reduced by 50 percent to account for risk.

Natural gas reserves (Bcf)	1997	1996	1995	1994	1993
Gross before royalties					
Proven producing	**357.0**	190.6	195.9	211.1	173.4
Proven shut-in	**124.7**	155.2	149.4	122.5	149.8
Subtotal	**481.7**	345.8	345.3	333.6	323.2
Probable additional	**155.1**	130.6	103.0	101.6	91.4
Total	**636.8**	476.4	448.3	435.2	414.6
50% reduction for risked probable reserves	**(77.6)**	(65.3)	(51.5)	(50.8)	(45.7)
Risk discounted total	**559.2**	411.1	396.8	384.4	368.9
Net after royalties					
Proven producing	**283.3**	147.6	149.2	159.2	127.9
Proven shut-in	**111.9**	134.4	128.9	108.5	127.3
Subtotal	**395.2**	282.0	278.1	267.7	255.2
Probable additional	**127.2**	106.4	85.2	83.9	76.7
Total	**522.4**	388.4	363.3	351.6	331.9
50% reduction for risked probable reserves	**(63.6)**	(53.2)	(42.6)	(41.9)	(38.3)
Risk discounted total	**458.8**	335.2	320.7	309.7	293.6
Crude oil & liquids reserves (MBbl)					
Gross before royalties					
Proven producing	**4,912.0**	5,089.8	2,895.6	887.9	227.6
Proven shut-in	**3,474.0**	484.3	199.1	189.6	151.8
Subtotal	**8,386.0**	5,574.1	3,094.7	1,077.5	379.4
Probable additional	**5,053.9**	5,088.0	3,490.0	1,086.5	796.6
Total	**13,439.9**	10,662.1	6,584.7	2,164.0	1,176.0
50% reduction for risked probable reserves	**(2,527.0)**	(2,544.0)	(1,745.0)	(543.2)	(398.3)
Risk discounted total	**10,912.9**	8,118.1	4,839.7	1,620.8	777.7
Net after royalties					
Proven producing	**3,785.0**	3,991.1	2,295.0	678.8	203.0
Proven shut-in	**2,566.2**	348.8	142.3	161.1	94.9
Subtotal	**6,351.2**	4,339.9	2,437.3	839.9	297.9
Probable additional	**3,858.5**	4,022.1	2,923.5	1,008.7	755.1
Total	**10,209.7**	8,362.0	5,360.8	1,848.6	1,053.0
50% reduction for risked probable reserves	**(1,929.3)**	(2,011.0)	(1,461.7)	(504.3)	(377.5)
Risk discounted total	**8,280.4**	6,351.0	3,899.1	1,344.3	675.5

RESERVE RECONCILIATION

The table below highlights the detailed proven and probable reserve reconciliation for 1997 for natural gas and crude oil and natural gas liquids. The probable reserves have been reduced by 50 percent to account for risk.

Natural Gas Reserves (Bcf)	Proven	Probable	Total
Risk discounted balance at December 31, 1996	345.8	65.3	411.1
Revisions of previous estimates	44.0	1.2	45.2
Extensions and discoveries	28.2	3.1	31.3
Acquisitions of gas in place	125.7	24.8	150.5
Dispositions of gas in place	(15.0)	(4.6)	(19.6)
Production estimate	(47.0)	–	(47.0)
50% reduction for risked probable reserves	–	(12.3)	(12.3)
Risk discounted balance at December 31, 1997	481.7	77.5	559.2

Crude Oil and Liquids (MBbl)	Proven	Probable	Total
Risk discounted balance at December 31, 1996	5,574.0	2,544.0	8,118.0
Revisions of previous estimates	1,287.4	(429.7)	857.7
Extensions and discoveries	1,046.3	327.2	1,373.5
Acquisitions of crude oil/liquids in place	974.3	258.3	1,232.6
Dispositions of crude oil/liquids in place	(276.0)	(190.0)	(466.0)
Production estimate	(220.0)	–	(220.0)
50% reduction for risked probable reserves	–	17.1	17.1
Risk discounted balance at December 31, 1997	8,386.0	2,526.9	10,912.9

The following table outlines the natural gas reserve reconciliation for Paramount over the past five years.

Natural Gas Reserves (BCF)	**1997**	1996	1995	1994	1993
Risk discounted opening balance	**411.1**	396.8	384.4	368.9	344.3
Revisions of previous estimates	**45.2**	13.9	15.5	9.8	(18.8)
Extensions and discoveries	**31.3**	56.0	42.3	40.6	42.2
Acquisitions of gas in place	**150.5**	76.8	15.9	17.8	35.0
Dispositions of gas in place	**(19.6)**	(71.9)	(12.6)	(7.6)	–
Production estimate	**(47.0)**	(46.7)	(48.0)	(40.0)	(34.1)
50% reduction for risked probable reserves	**(12.3)**	(13.8)	(0.7)	(5.1)	0.3
Risk discounted closing balance	**559.2**	411.1	396.8	384.4	368.9

OPERATIONS

The table below summarizes by property Paramount's production, averaged over the year, for the past five years.

MAJOR PRODUCING PROPERTIES – PRODUCTION

Natural Gas (MMcf/d)	1997	1996	1995	1994	1993
Legend	**9.7**	11.8	12.9	12.5	12.6
North Liege	**8.3**	11.0	13.7	15.4	19.5
Liege	–	9.2	11.5	12.6	15.1
South Liege	**1.1**	–	2.4	3.0	6.6
East Liege	**3.4**	1.3	–	–	–
Chip Lake	–	5.2	7.4	7.6	6.6[1]
Chip West	–	2.7	3.8	2.8	1.1[1]
Blanchett	–	2.3	2.7	1.8	1.6[1]
Saleski I & II	**7.4**	9.0	9.2	8.7	7.9
Teepee Creek	**6.8**[2]	–	–	–	–
Chard	**3.6**	4.8	5.5	5.6	6.8
Clyde East	**1.1**[2]	–	–	–	–
Corner	**24.1**	20.0	19.1	6.2	–
Kettle River	**21.2**	15.6	16.7	17.0	16.4
Leismer	**3.7**	1.5	1.9	0.4	–
South Leismer	**5.2**	3.8	2.0	–	–
Quigley	**6.8**	6.5	7.1	8.0	8.2
Kaybob	**8.3**	11.3	13.8	8.7	–
Kaybob North	**7.3**	3.3			
Bistcho Lake	**6.6**[2]	–	–	–	–
Zaremba	**3.1**[2]	–	–	–	–
Amisk	–	–	–	1.5	1.9
Reserve Royalty acquisition	**11.3**[2]	–	–	–	–
Other	**9.6**	7.8	5.3	4.3	1.9
Total	**148.6**	127.1	135.0	116.1	106.2
Crude Oil and Liquids (Bbl/d)					
Alberta	**711**	1,120	807	313	160
Saskatchewan	**616**	332	–	–	–
Other	**65**	65	–	–	–
Total	**1,392**	1,517	807	313	160

[1] Average production for last two months of 1993.
[2] Production totals for 1997 have been averaged over the year.

MAJOR PRODUCING PROPERTIES – DESCRIPTION

The following is a description of Paramount's major producing properties as of December 31, 1997. The majority of these properties are in northeastern Alberta and produce natural gas from the shallow, high deliverability natural gas reserves whose discovery and development has been the focus of the Company's corporate strategy since its inception in 1978. Production from this traditional area accounted for 78 percent of the Company's total natural gas production.

Natural gas production from the Company's core area in central Alberta accounted for 12 percent of the total production in 1997, with 5 percent from northwestern Alberta and 3 percent from the Company's new facility in northeastern British Columbia. The remaining 2 percent is from non-operated production in non-core areas.

Paramount's crude oil production is mainly from the Company's non-operated battery at Midale in Saskatchewan, and the operated production in central Alberta from the Kaybob West facility. Both these properties are described herein.

LEGEND

Paramount has an interest in 96,000 (44,904 net) acres of land at Legend with 37 (16.4 net) producing natural gas wells and 14 (6.2 net) non-producing wells. Paramount has a 44.5 percent working interest in the company-operated Legend gas plant with a present production capacity of 22.7 MMcf/d. There are 70.7 miles of pipeline tied into this facility. The Company also has an effective 1.0 percent gross overriding royalty on 8 wells and an effective 4.4 percent gross overriding royalty on a separate 9 wells.

NORTH LIEGE

Paramount has an interest in 69,670 (63,335 net) acres of land at North Liege with 17 (16.3 net) producing natural gas wells and 26 (21.3 net) non-producing wells. Paramount has a 94.6 percent working interest in the company-operated plant which has a capacity of 9.2 MMcf/d. There are 29.7 miles of pipeline gathered to this facility.

EAST LIEGE/SOUTH LIEGE

The acreage that Paramount retained when its interests in the South Liege plant and gathering were sold effective December 1, 1995, is now called East Liege. The Company has an interest in 37,760 (32,437 net) acres in this area. There are 5 (4.9 net) gas wells producing through a pipeline to a non-operated plant at Liege with a maximum 1997 capacity of 4.5 MMcf/d. There are also 12 (11.8 net) non-producing gas wells on this property.

The South Liege acquisition effective October 1, 1997 includes some of the original acreage and the plant sold in December 1995. The Company's acreage at South Liege including East Liege now totals 101,920 (93,422 net) acres. There are 20 (18.6 net) wells producing to the South Liege plant and 27 (23.5 net) non-producing wells. The maximum capacity of this plant in 1997 was 6.2 MMcf/d of which Paramount has sole ownership.

SALESKI I AND SALESKI II

Paramount has a working interest in 88,000 (81,401 net) acres of land with 19 (18.3 net) producing and 8 (7.1 net) non-producing natural gas wells. The Company has an effective 10.7 percent gross overriding royalty on two other wells at Saleski. The two company-operated gas plants at Saleski have a combined capacity of 8.1 MMcf/d of which Paramount has a combined working interest of 95.8 percent. There are 35.9 miles of pipeline constructed at these plants.

TEEPEE CREEK

Teepee Creek is a new shallow gas producing area for Paramount along the Devonian Wabamun subcrop in northeast Alberta. The newly constructed 40 MMcf/d plant, with 25 miles of gathering system, came on production April 1, 1997. The Company has a 37.5 percent working interest in this non-operated gas plant. There are 11 (5.5 net) producing gas wells and 11 (5.5 net) non-producing gas wells in this area with 101,959 (53,780 net) acres of land.

CHARD

Paramount has an interest in 25,156 (20,408 net) acres of land at Chard. There are 16 (9.8 net) producing natural gas wells with a capacity net to Paramount of 4.8 MMcf/d (6.0 MMcf/d gross capacity). The gas plant at Chard has been replaced with a booster that with additional pipeline provides for this gas to be produced at the Kettle River plant. There are 10 (9.3 net) non-producing wells on the Chard property and 35.7 miles of gathering system. The Company also owns an effective 12.0 percent gross overriding royalty on 9 of the 21 producing wells as well as an additional 4.3 percent gross overriding royalty on two producing wells.

CLYDE EAST

Clyde Lake is the newest Company-operated plant on the east side of northeastern Alberta. This plant came on production in June of 1997. There are 24,960 (12,267 net) acres of land at Clyde with 5 (2.5 net) producing wells and 3 (1.5 net) non-producing wells. Paramount's net production from this area totalled 395 MMcf.

CORNER

Paramount has an interest in 92,440 (92,440 net) acres of land at Corner with 51 (51.0 net) producing wells and 20 (20.0 net) non-producing wells. The company-operated plant has a capacity of 28.4 MMcf/d. There are 50.1 miles of gathering to this plant of which Paramount has a 100 percent working interest.

KETTLE RIVER

Paramount has an interest in 35,200 (33,111 net) acres of land at Kettle River with 29 (27.5 net) producing and 11 (10.2 net) non-producing wells. The Company also owns an effective 11.2 percent gross overriding royalty on two of the 29 producing wells. The company-operated gas plant at Kettle has a capacity of 26.6 MMcf/d of which Paramount has a 92.5 percent working interest. There are 30.0 miles of gas pipeline associated with this plant.

LEISMER

Paramount has an interest in 44,160 (37,856 net) acres and 25.4 miles of gathering system at Leismer. The plant capacity for 1997 was 7.9 MMcf/d of which Paramount has a 32.5 percent working interest. There are 9 (6.9 net) producing natural gas wells and 16 (13.3 net) non-producing wells at Leismer.

SOUTH LEISMER

South Leismer is located in the Company's traditional shallow gas area of northeastern Alberta. The Company has an interest in 121,920 (114,578 net) acres at South Leismer with 25 (25.0 net) producing wells and 40 (38.7 net) non-producing wells. Maximum capacity at the plant for 1997 was 6.2 MMcf/d of which Paramount has a 100 percent working interest. Production from South Leismer began in June 1995 with 57.3 miles of new pipeline supplying gas to the company-operated plant.

QUIGLEY

Paramount has an interest in 56,320 (44,320 net) acres of land at Quigley with 21 (17.7 net) producing and 21 (16.5 net) non-producing natural gas wells. There are 24.2 miles of pipeline gathered to this 8.2 MMcf/d gas plant. Paramount has a 79.8 percent working interest in this plant.

KAYBOB

Paramount has an interest in 61,920 (54,143 net) acres of land at Kaybob with 14 (12.2 net) producing wells and 18 (14.3 net) non-producing wells. The Kaybob plant is located in central Alberta away from the Company's traditional shallow gas area. Kaybob produces natural gas from wells with higher reservoir pressures which are rich in natural gas liquids. Kaybob went on production in June 1994. The capacity of this company-operated plant is 10.0 MMcf/d of which Paramount has a 91.7 percent working interest. Natural gas is gathered to the plant through 38.9 miles of pipeline.

KAYBOB NORTH

This area was acquired by Paramount from a wholly owned subsidiary, Arwaves Resources Ltd. There are 29 (10.4 net) gas wells producing to an outside-operated plant and 20 (14.9 net) non-producing gas wells. There is also oil production associated with this property from 10 (6.9 net) producing oil wells and 6 (3.8) non-producing oil wells. The natural gas production from Kaybob North is similar to that from the company-operated Kaybob area; that is, rich in natural gas liquids. The acreage acquired at Kaybob North totals 78,090 (36,920 net) acres. Production from this area in 1997 was 7.3 MMcf/d net to Paramount.

BISTCHO LAKE

Bistcho Lake is located in northwestern Alberta, over 60 km north of the Zama Lake pipeline terminal. With construction of the new plant at Bistcho Lake and NOVA's extension of their main line, production from this field commenced April 1, 1997. This company operated sour gas processing facility has a capacity of 40 MMcf/d of raw gas (36 MMcf/d of sales) with Paramount's working interest being 40.75 percent. At year end 1997 there were 361,208 (144,046 net) acres of land at Bistcho Lake with 16 gross (5.9 net) producing gas wells, 3 (1.2 net) service wells for acid gas injection and water disposal, and 12 gross (4.6 net) non-producing wells.

LAPP/ZAREMBA

Paramount has an interest in 32,602 (19,562 net) acres in the Zaremba area of British Columbia. This is a new producing area for the Company with 8 (4.8 net) producing gas wells and one (0.6 net) producing oil well. There are 6 (2.9 net) non-producing gas wells at Zaremba. The production net to Paramount from this area in 1997 was 3.1 MMcf/d of natural gas and 65 Bbl/d of crude oil. Prior to October 1, 1997, Paramount's natural gas was processed through an outside-operated gas plant. The Company has acquired the Zaremba gas plant and associated production. Maximum plant capacity at Zaremba in 1997 was 12.0 MMcf/d.

RESERVE ROYALTY ACQUISITIONS

The Company's 1997 acquisition of property and wells in the Thornbury, Winefred and Cold Lake areas in northeast Alberta and the Primrose area of southwest Saskatchewan added 499,653 (312,638 net) acres to the Company's land inventory. There are 223 (163 net) producing wells associated with these areas and 84 (72.4 net) non-producing wells. This acquisition of approximately 42 MMcf/d includes no new company-operated gas plants. The Primrose plant is 50 percent owned and operated by another company, and the northeast Alberta production is custom-processed for a fixed fee.

MIDALE

The Company has an interest in 12,891 (2,840 net) acres in this non-operated area in Saskatchewan. There are 34 (7.9 net) oil wells producing to non-operated batteries that were completed in 1997. There are 17 (4.2 net) non-producing oil wells at Midale. Net production to Paramount from this area was 616 Bbl/d in 1997.

KAYBOB WEST

Paramount has an interest in 13,580 (13,580 net) acres at Kaybob West. In 1996, a central battery and gathering system was built to bring 6 (6 net) oil wells on production. There are 3 (3 net) non-producing oil wells and 3 (3 net) capped gas wells. Paramount's net production from this area for oil and natural gas liquids totalled 378 Bbl/d in 1997.

SELECTED SUMMARY FINANCIAL AND OPERATING INFORMATION

FINANCIAL

($ millions except per share amounts)[1]	1997	1996	1995	1994	1993
Revenues					
Oil and gas revenues (before royalties)	**128.493**	100.644	69.887	72.293	64.509
Expenses					
Royalties	**18.750**	9.258	8.755	12.940	11.780
Operating	**21.023**	16.196	14.624	13.658	9.596
Interest	**6.698**	6.382	7.185	5.873	3.273
General and administrative	**9.405**	5.972	3.642	4.328	4.732
Depreciation and depletion	**33.053**	23.760	24.969	16.225	13.049
Dry hole costs	**7.378**	2.565	2.150	3.432	3.272
Net earnings	**23.389**	25.462	5.622	11.504	12.982
Per share	**0.47**	0.53	0.12	0.24	0.29
Cash flow from operations	**70.911**	63.107	35.313	35.213	35.076
Per share	**1.42**	1.32	0.74	0.74	0.79
Capital expenditures (gross)	**206.805**	90.211	48.880	85.274	71.688
Proceeds of property/equipment sales	**22.636**	27.084	1.261	31.404	1.188
Balance Sheet Information					
Working capital (deficiency)	**2.131**	(16.950)	(0.399)	4.650	0.526
Total assets	**469.954**	306.463	245.342	256.668	188.446
Long-term operating bank debt	**139.518**	63.046	86.111	84.563	57.006
Per share	**2.80**	1.31	1.81	1.78	1.29
Shareholders' equity	**203.766**	120.734	88.427	84.395	73.684
Per share	**4.09**	2.52	1.85	1.78	1.66
Dividends paid	**2.460**	1.590	1.590	1.590	1.572
Per share	**0.05**	0.033	0.033	0.033	0.033
Share information					
Average number of common shares outstanding (millions)	**49.782**	47.937	47.703	47.460	44.346
Market price ($)					
High	**17.75**	9.00	5.33	7.83	8.79
Low	**7.75**	4.33	3.83	4.17	3.50

OPERATING

	1997	1996	1995	1994	1993
Reserves (proven and probable)					
Natural gas (Bcf)	**637**	476	448	435	415
Crude oil and liquids (MBbl)	**13,440**	10,662	6,585	2,164	1,176
Land holdings (000's acres)					
Gross	**3,555**	2,288	2,343	2,302	1,876
Net	**2,032**	1,464	1,469	1,447	1,238
Production					
Natural gas (MMcf/d)	**148.6**	127.1	135.0	116.1	98.7
Average natural gas price ($/Mcf)	**2.12**	1.84	1.30	1.66	1.72
Crude oil and liquids (Bbls/d)	**1,392**	1,517	807	313	161
Average crude oil price ($/Bbl)	**26.36**	27.91	20.66	16.04	20.14
Drilling activity					
Gas wells	**81**	78	101	81	34
Oil wells	**28**	17	7	7	4
Standing	**23**	–	–	–	–
Gas/oil wells	**–**	–	–	1	1
Service	**5**	–	–	–	–
Dry and abandoned	**10**	11	8	10	7
Total	**147**	106	116	99	46
Success rate (%)	**93**	90	93	90	85
Number of employees					
Office	**53**	47	48	44	41
Field	**46**	36	58	56	37
Total	**99**	83	106	100	78

[1] All per share amounts are calculated using average number of shares outstanding, except dividends paid per share which are based upon actual shares outstanding at time of dividend declaration.

THREE YEAR QUARTERLY SUMMARY

($ millions except per share amounts)		Cash Flow		Net Earnings	
Three Months Ended	Net Revenue	Total	Per Share	Total	Per Share
March 31, 1995	15.112	8.047	0.170	0.712	0.017
June 30, 1995	15.523	9.485	0.197	2.046	0.040
September 30, 1995	15.504	8.745	0.183	2.756	0.060
December 31, 1995	17.009	9.036	0.190	0.108	–
March 31, 1996	20.696	13.775	0.290	4.231	0.090
June 30, 1996	21.565	14.762	0.310	4.597	0.097
September 30, 1996	22.523	15.331	0.320	6.092	0.127
December 31, 1996	28.430	19.239	0.397	10.542	0.217
March 31, 1997	24.462	16.764	0.341	4.947	0.101
June 30, 1997	21.517	13.240	0.270	4.146	0.084
September 30, 1997	25.055	15.593	0.320	11.228	0.230
December 31, 1997	41.886	25.314	0.490	3.068	0.060

DIVIDEND POLICY

Paramount has paid a cash dividend every year for the last five years. There is no current intention to change the policy of paying dividends. The following table summarizes the Company's record of dividend payments.

DIVIDENDS PAID

	1997	1996	1995	1994	1993
Per share	$ 0.050	$ 0.033	$ 0.033	$ 0.033	$ 0.033
Total (millions)	$ 2.460	$ 1.590	$ 1.590	$ 1.590	$ 1.572

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A" – SEE PAGES 21 TO 29)

See the Company's Management's Discussion and Analysis relating to the audited consolidated financial statements for the fiscal years ended December 31, 1997 and 1996, which form part of this Annual Report.

MARKET FOR SECURITIES

The common shares of Paramount Resources Ltd. are listed and posted for trading on The Toronto Stock Exchange under the trading symbol 'POU'.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration, principal holders of Paramount Resources Ltd. securities and options to purchase securities, is contained in Paramount's Information Circular dated March 19, 1998, which relates to the Annual Meeting of Shareholders to be held May 14, 1998.

Additional financial information is contained in the Company's comparative financial statements for the year ended December 31, 1997.

For additional copies of this Annual Report and the materials listed in the preceding paragraphs, please contact:

G. Barry Padley, C. A.
Chief Financial Officer

internal commentary:
Supplement to the 1997 Annual Report (April 1998)

our track record

Purpose

This Handbook has been prepared by Paramount Resources Ltd. to address the special information needs of the investment community and the sophisticated investor. The Handbook provides detailed performance data and key ratios. For additional information please contact:

C.H. (Clay) Riddell, President

G.B. (Barry) Padley, Chief Financial Officer

J.H.T. (Jim) Riddell, Corporate Operating Officer

S.L. (Sue) Riddell Rose, Corporate Operating Officer

Telephone: (403) 290-3600 Facsimile: (403) 262-7994

Stock Split 3:1 Effective June 4, 1997. All per share data has been restated to give effect to the 3:1 share split.

Corporate Profile

Paramount Resources Ltd. explores for, develops, transports and markets natural gas and crude oil/liquids. Since its incorporation on February 14, 1978, the Company has maintained year over year growth in gas sales and is a major producer of natural gas in northeastern Alberta. Paramount has an aggressive, focused exploration and development strategy, concentrated on acquiring land and establishing reserves of shallow gas.

- 19 years old
- 99 employees (53 head office, 46 field)
- The Toronto Stock Exchange; symbol 'POU'
- Legal for Life
- Listed on TSE Composite Index
- 53.954 million shares outstanding
- Market Capitalization: $917 million (Dec. 31/97)

Over the past five years Paramount has diversified its asset base, adding core areas in central Alberta and British Columbia, northwest Alberta and southeast Saskatchewan to its portfolio.

Year	Cash Flow	Per Share	Earnings	Per Share
1996	$ 63.1 million	$ 1.32	$ 25.5 million	$ 0.53
1997	**$ 70.9 million**	**$ 1.42***	**$ 23.4 million**	**$ 0.47**
1998Est	$ 110.0 million	$ 2.04		

* Average number of common shares outstanding for 1997 was 49,782,000

What is different about Paramount?

- Niche is gas in northeastern Alberta
- "A Pure Gas Play"
  90% of revenue from natural gas sales
- 82% of gas sales exported into the United States
- "Successful Efforts" accounting policy
  – conservative cash flow and net earnings
- High management ownership (53%)
- Paramount creates its shareholder value with the drill bit
  – an explorer versus an acquirer
- Exposure to rank wildcat exploration plays in southeast Saskatchewan, the Liard basin and Cameron Hills in the N.W.T., and the southern Alberta foothills.

Niche

Traditionally, major producer of natural gas in northeastern Alberta. Shallow gas – high deliverability, low pressure, low environmental risk. Paramount has now diversified into central Alberta and B.C., N.W. Alberta, and S.E. Saskatchewan. 1997 was a year of important exploratory drilling activity in Liard, N.W.T.

Consolidated Earnings & Cash Flow Data

($ millions except per share amounts)

Years Ended December 31	1997	1996	Change
Revenue			
Natural Gas Sales	$115.1	$ 85.2	35%
Crude Oil & Liquid Sales	13.4	15.5	(14%)
Net Royalties, incl. ARTC	(17.5)	(7.8)	124%
Other	1.9	0.3	533%
Net Revenue	112.9	93.2	21%
Expenses			
Operating	21.0	16.2	30%
Interest	6.7	6.4	5%
General & Admin. (G&A)	9.4	6.0	57%
Lease Rentals	2.5	1.9	32%
Current Taxes/LCT	1.2	0.6	100%
Dry Hole Costs	7.4	2.5	196%
Geological and Geophysical	2.0	2.9	(31%)
Site Restoration	0.7	0.5	40%
Dep., Depl. & Amort.	33.0	23.8	39%
Other (Income) net	(12.6)	(4.0)	215%
Other Expenses	1.2	–	–
Deferred Taxes	17.0	10.9	56%
Net Earnings	$ 23.4	25.5	(8%)
Net Earnings Per Share	$ 0.47	$ 0.53	(11%)

Cash Flow Reconciliation

	1997	1996	Change
Oil & Gas Revenue Net of Royalty	$112.9	$ 93.2	
Less Expenses			
Operating	$ 21.0	$ 16.2	
Interest	6.7	6.4	
G & A	9.4	5.0	
Other Expenses	1.2	–	
Lease Rentals	2.5	1.9	
Current & Large Corp. Taxes	1.2	0.6	
Cash Flow	$ 70.9	$ 63.1	12%
Cash Flow Per Share	$ 1.42	$ 1.32	8%
Cash Flow as a % of Net Revenue	63%	68%	(7%)

Balance Sheet Information

($ millions) As at December 31	1997	1996	Change
Assets			
Current Assets	$ 62.7	$ 52.4	20%
Properties & Equipment (net)	404.1	250.1	62%
Other	3.2	4.0	(20%)
	$ 470.0	$ 306.5	53%
Liabilities			
Current Liabilities	$ 60.5	$ 69.3	(13%)
Bank Loans – Operating	$ 139.5	63.1	121%
Deferred Revenue/Other	$ 9.1	9.6	(5%)
Deferred Taxes	$ 57.1	43.8	30%
Shareholders' Equity	$ 203.8	120.7	69%
	$ 470.0	$ 306.5	53%

Net Appraised Asset Value Per Common Share

($ millions except per share amount)

Discount rate at December 31, 1997	10%	15%	20%
Present value of net oil and gas reserves[1,2]	$ 570.5	$ 459.2	$ 383.8
Appraised value of undeveloped acreage	47.0	47.0	47.0
Subtotal	617.5	506.2	430.8
Add working capital	2.1	2.1	2.1
Less operating long-term debt	139.5	139.5	139.5
Net appraised asset value	$ 480.1	$ 368.8	$ 293.4
Net appraised asset value per common share[3]	$ 8.90	$ 6.84	$ 5.44

[1] Includes benefit of ARTC with no allowance for income tax
[2] Based upon Escalating Price Assumptions
[3] Based upon outstanding common shares 53,953,600 at Dec. 31, 1997

Present Value of Estimated Pre-Tax Cash Flow Expected During Economic Life of All Reserves

	Reserves Before Royalty		Present Value of Estimated Pre-Tax Cash Flow Discounted at:		
	Oil/Liquids (MBbl)	Gas (Bcf)	10%	15%	20%
Proven	8,386	482	$ 430.9	$ 357.2	$ 305.7
Probable	5,054	155	139.6	102.0	78.1
Total	13,440	637	$ 570.5	$ 459.2	$ 383.8

The discounted net present values are based on estimates using escalating price assumptions at rates of 10%, 15% and 20% per annum compounded annually and are calculated prior to the consideration of income taxes but include ARTC, and are not to be construed as representing the fair market value of properties. The fair market value of the properties and such net present values will depend upon the subjective considerations of a particular purchaser.

Appraised Value of Undeveloped Acreage

(000s)	Gross Acres	Net Acres
Alberta	1,505	919
British Columbia	99	44
Saskatchewan	438	145
Northwest Territories	309	115
Total undeveloped acreage	2,351	1,223
Appraised value of undeveloped net acreage		$47.0 million

Appraised value is an estimate of the fair market value of acreage based upon current analogous sales. Approximately 60% of the total net 1997 land inventory of 2,032,019 is undeveloped.

Selective Balance Sheet Information

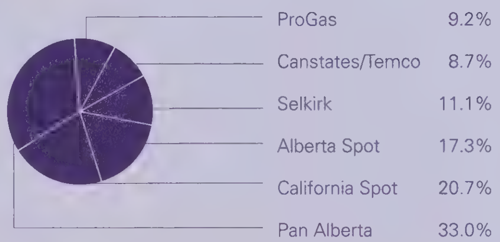
At December 31, 1997 (000s)	
Current assets	$ 62.7
Less current liabilities	60.6
Working capital	2.1
Long-term operating bank loans	139.5
Net debt	$ 137.4

Gas Sales & Markets (MMcf/d)

	1997	1996
Pan Alberta	49	43
ProGas	14	24
Canstates/Temco	13	13
Selkirk	16	17
California and Alberta spot	57	30
Total sales	149	127
Aggregators	51%	63%
Direct sales and uncommitted gas supply	49%	37%
Company-operated facilities	16	12

1997 Natural Gas Contracts

54.2 Bcf



Oil & Gas Sales and Gross Profit

This illustrates oil and gas sales since 1993 and converts the oil sales into gas equivalent (Mcfeq) on an industry standard basis of one barrel of crude oil/liquids equals 10 Mcf of natural gas.

	Oil & Gas Revenue		Gas Prod.		Oil & Liquids Prod.		Average Price		Gas Equiv. Prod.	
							Gas	Oil		
Fiscal Year[1]	($ 000s)	Trend	(MMcf)	Trend	(bbls)	Trend	($)	($)	MMcfeq	Trend
1993	64,509	100	36,035	100	58,777	100	1.72	20.14	39,347	100
1994	72,293	112	42,377	118	114,245	194	1.66	16.04	43,520	111
1995	69,887	108	49,275	137	294,650	501	1.30	20.66	52,221	133
1996	100,644	156	46,392	129	553,605	942	1.84	27.91	51,924	132
1997	**128,493**	**199**	**54,239**	**151**	**508,080**	**864**	**2.12**	**26.36**	**59,320**	**151**

[1] Trend with base year 1993, with nominal value of 100

Operating Cash Netbacks

	Royalties (net ARTC)			Operating Cost			Operating Cash Netback		Operating Cash Netback	
Fiscal Year[1]	($ 000s)	$/Mcfeq	Trend	($ 000s)	$/Mcfeq	Trend	($ 000s)	$/Mcfeq	%	Trend
1993	9,977	0.26	100	9,596	0.25	100	44,936	1.13	69.7	100
1994	11,635	0.27	104	13,658	0.31	124	47,000	1.08	65.0	93
1995	7,280	0.14	54	14,624	0.28	112	47,983	0.92	69.0	99
1996	7,763	0.15	58	16,196	0.31	124	76,685	1.48	76.2	109
1997	**17,540**	**0.30**	**115**	**21,023**	**0.35**	**140**	**89,930**	**1.52**	**70.0**	**100**

Cash Netback = Oil & Gas Revenue – Royalty – Operating Cost
[1] Trend with base year 1993, with nominal value of 100

Revenue/Expenses/Cash Flow Netback/Net Earnings – Per Mcfeq

The table calculates approximate revenue, expenses and net earnings converted into dollars per thousand cubic feet gas equivalents (1 Barrel equals 10 Mcf).

	1997	1996	1995	1994	1993
MMcfeq	59,320	51,924	52,221	43,520	39,347
Revenue $/Mcfeq	$ 2.17	$ 1.94	$ 1.34	$ 1.66	$ 1.64
All royalty net A.R.T.C.	**0.30**	0.15	0.14	0.27	0.26
Operating costs	**0.35**	0.31	0.28	0.31	0.25
Cash netback	**1.52**	1.48	0.92	1.08	1.13
General and administrative (less other income)	**0.15**	0.09	0.06	0.09	0.10
Interest on long-term debt	**0.11**	0.12	0.14	0.14	0.08
Lease rental and current/capital taxes	**0.06**	0.05	0.04	0.04	0.06
Cash flow netback	1.20	1.22	0.68	0.81	0.89
Depletion and depreciation	**0.56**	0.46	0.48	0.37	0.33
(Gain) on sale of properties	**(0.21)**	(0.07)	–	(0.24)	(0.01)
Dry hole costs	**0.12**	0.05	0.04	0.08	0.08
Geological and geophysical	**0.03**	0.06	0.06	0.09	0.03
Other (income) expense (net)	–	0.01	–	0.03	(0.03)
Pretax earnings	$ **0.70**	$ 0.71	$ 0.10	$ 0.48	$ 0.49
All taxes current and deferred (recovery)	**0.31**	0.22	(0.01)	0.22	0.16
Net earnings	$ **0.39**	$ 0.49	$ 0.11	$ 0.26	$ 0.33
Net earnings trend[1]	**118**	49	33	79	100

[1] Trend with base year 1993, with nominal value of 100.

Common Share Data

Shares of Paramount Resources Ltd. trade on The Toronto Stock Exchange under the symbol 'POU'. (Restated for 3:1 Stock split effective June 4, 1997).

December 31	1997	1996
Outstanding shares (000s)	**53,954**	49,203
Public float[1] – shares (000s)	**25,340**	20,700
– % of total share	**47%**	43%
Trading volume (000s)	**5,500**	9,300
Trading volume as % of public float	**22%**	50%
Trading value ($ 000s)	**$ 70,180**	$ 50,642
Trading range		
High	**$ 17.75**	$ 9.00
Low	**$ 7.75**	$ 4.33
Close	**$ 17.00**	$ 8.33
Weighted average trading price	**$ 12.66**	$ 5.45
Market capitalization at year end ($ millions)	**$ 917.2**	$ 410.03

[1] Public Float is all outstanding shares less shares owned/controlled by officers/directors

[2] On January 12, 1998 Paramount was added to the TSE 300 Composite Index (Subgroup 3.2 Oil and Gas Producers) and the TSE 200 Index, effective January 16, 1998.

Key Ratios

The accompanying section to the Cash Flow Reconciliation presents the key ratios to "fundamental analysis". Per share calculation for 1997 utilize an average number of common shares outstanding of 49,782,000.

Cash Flow per Share
Share Price to Cash Flow Multiple
Debt to Cash Flow Ratio
Debt to Equity Ratio
Earnings per Share
Dividend Yield
Rate of Return on Shareholders' Equity

Cash Flow

Paramount calculates its cash flow;

- net of all lease rentals of both producing and non-producing properties
- net of all general and administrative costs (the Company does not capitalize any G&A)
- net of all marketing costs which are expensed currently

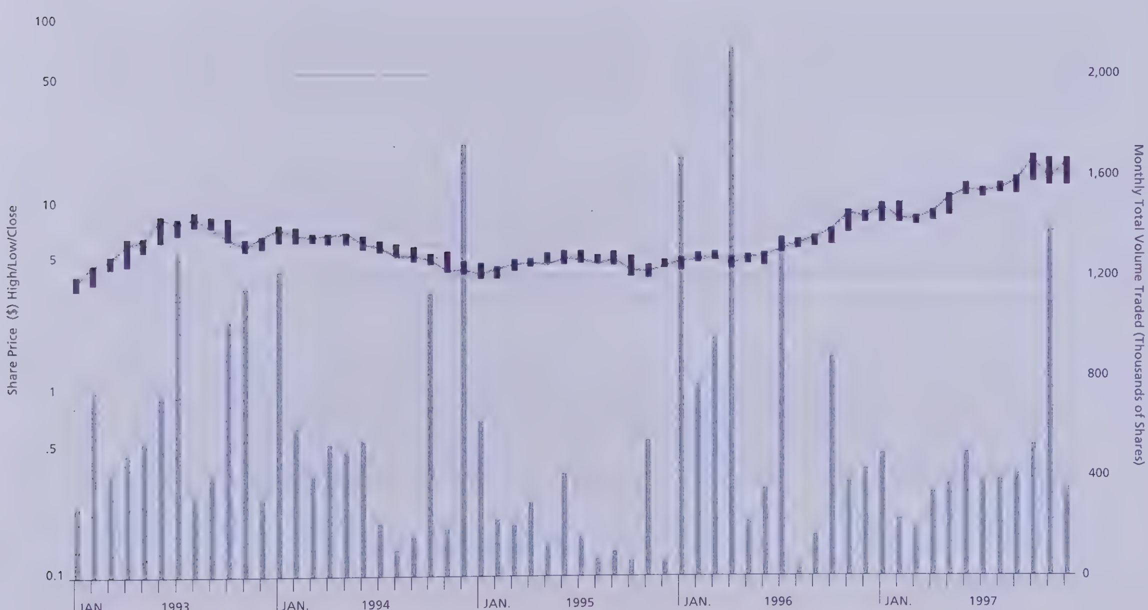
The Company does not capitalize any interest expenses.

Net Earnings

Paramount calculates its net earnings;

- net of dry hole costs
- net of geological and geophysical costs
- net of all lease rentals paid
- net of all G&A expenses
- net of all interest costs

Five Year Share Price and Trading Volumes (1993 – 1997)



Cash Flow Reconciliation

($ millions)	1997	1996	1995	1994	1993
	December 31				
Net revenue[1]	**112.9**	93.2	63.2	61.2	55.2
Less					
Operating costs	**21.0**	16.2	14.6	13.7	9.6
G&A[2]	**10.6**	5.0	3.6	4.3	4.7
Lease rentals	**2.5**	1.9	1.9	1.9	1.3
Interest expense	**6.7**	6.4	7.2	5.9	3.3
Current and Large Corporation Taxes	**1.2**	0.6	0.4	0.2	1.2
Cash flow	**70.9**	63.1	35.3	35.2	35.1
Cash flow as a % of revenue	**63**	68	56	58	64

[1] Revenue net of royalty and ARTC
[2] General and Administrative, net of other income and expense.

Cash Flow Per Year and Cash Flow/Share Per Year

Fiscal Year	Cash Flow ($ 000s)	Trend[1]	Year End Shares (000s)	Cash Flow per Share ($)	Trend[1]
1993	35,076	100	47,316	0.79	100
1994	35,213	100	47,703	0.74	94
1995	35,313	101	47,703	0.74	94
1996	63,107	180	49,203	1.32	167
1997	**70,911**	**202**	**53,954**	**1.42**	**180**

[1] Trend with base year 1993, with a nominal value of 100

Share Price to Cash Flow Multiple

Fiscal Year	Share Price ($) Low	Share Price ($) High	Cash Flow ($ 000s)	Cash Flow per Share ($)	Share Price as a Multiple of Cash Flow: Low Price	High Price
1993	3.50	8.79	35,076	0.79	4.4x	11.1x
1994	4.17	7.83	35,213	0.74	5.6x	10.5x
1995	3.83	5.33	35,313	0.74	5.2x	7.2x
1996	4.33	9.00	63,107	1.32	3.3x	6.8x
1997	**7.75**	**17.75**	**70,911**	**1.42**	**5.5x**	**12.5x**

Net Debt to Cash Flow Ratio

Fiscal Year	Operating Debt ($ 000s)	Cash Flow ($ 000s)	Debt/Cash Flow Ratio	Trend[1]
1993	56,480	35,076	1.6:1	100
1994	79,913	35,213	2.3:1	140
1995	86,510	35,313	2.5:1	156
1996	79,996	63,107	1.3:1	81
1997	**137,387**	**70,911**	**1.9:1**	**119**

[1] Trend with base year 1993, with a nominal value of 100

Debt to Equity Ratio

Fiscal Year	Operating Debt ($ 000s)	Shareholders' Equity ($ 000s)	Debt/ Equity Ratio	Trend[1]
1993	57,006	73,684	0.77:1	100
1994	84,563	84,395	1.00:1	130
1995	86,111	88,427	0.97:1	126
1996	63,046	120,734	0.52:1	68
1997	**139,518**	**203,766**	**0.68:1**	**88**

[1] Trend with base year 1993, with a nominal value of 100

Earnings Per Share

Paramount's earnings are net of dry hole costs, geological/geophysical costs and all lease rentals.

Fiscal Year	Earnings ($ 000s)	Trend[1]	Year End Shares (000s)	Earnings per Share ($)	Trend[1]
1993	12,982	100	47,316	0.29	100
1994	11,504	89	47,703	0.24	83
1995	5,622	43	47,703	0.12	41
1996	25,462	196	49,203	0.53	183
1997	**23,389**	**180**	**53,954**	**0.47**	**162**

[1] Trend with base year 1993, with a nominal value of 100

Dividend Payout

Paramount is one of the few oil and gas companies its size which declares a dividend. With the exception of 1987, a dividend has been paid every year since 1985.

Fiscal Year	Dividend per Share ($)	Net Earnings Per Share	Payout %
1993	0.033	$0.29	11.4
1994	0.033	$0.24	13.8
1995	0.033	$0.12	27.5
1996	0.033	$0.53	6.2
1997	**0.050**	**$0.47**	**10.6**

Rate of Return on Shareholders' Equity

Paramount has earned an average weighted after-tax rate of return as computed on a book basis, based upon the weighted average shareholder's equity invested over the past five years of 16.8%, as follows:

($ 000s)	1997	1996	1995	1994	1993
Net earnings	**23,389**	25,462	5,622	11,504	12,982
Weighted average shareholder's equity	**162,250**	104,600	86,400	79,000	53,700
After-tax rate of return (%)	**14.4**	24.3	6.5	14.6	24.2

Capital Structure

The following table outlines Paramount's capital structure since 1993.

(Dollar amounts in 000s)	1997 $	1996 $	1995 $	1994 $	1993 $
Long-term debt (operating)	**139,518**	63,046	86,111	84,563	57,006
Deferred income tax	**57,098**	43,799	30,941	32,984	23,740
Deferred revenue and other	**9,039**	9,552	8,501	1,109	956
Shareholders' equity	**203,766**	120,734	88,427	84,395	73,684
	409,421	237,131	213,890	203,051	155,386

Major producing Properties

Working Interest Gas Only (MMcf/d)

Gas Plants	1997	1996
Legend	9.7	11.8
North Liege	8.3	11.0
Liege	–	9.2
East Liege	3.4	1.3
South Liege	1.1	–
Chip Lake	–	5.2
Chip West	–	2.7
Blanchett	–	2.3
Clyde East	1.1(2)	–
Saleski I & II	7.4	9.0
Teepee Creek	6.8(2)	–
Quigley	6.8	6.5
Kettle River	21.2	15.6
Chard	3.6	4.8
Leismer	3.7	1.5
Reserve Royalty Acquisition	11.3(2)	–
Corner	24.1	20.0
Kaybob	8.3	11.3
Kaybob North	7.3	3.3
Zaremba	3.1(2)	–
South Leismer	5.2	3.8
Bistcho Lake	6.6(2)	–
Other	9.6	7.8
Total	148.6	127.1
Crude Oil & Liquids (Bbl/d)		
Alberta	711	1,120
Saskatchewan	616	332
Other	65	65
Total	1,392	1,517

Net Land (thousands acres)

	1997	1996
Proved	809	532
Undeveloped	1,223	932
Total	2,032	1464

Net Capital Expenditures ($ millions)

	1997	1996
Drilling & seismic	$ 52.0	$ 24.1
Crown land sales	9.5	9.5
Property acquisition	77.0	11.2
Acquisition of subsidiary	0.9	14.8
Plant, gathering & equipment	67.4	30.6
	206.8	90.2
Less proceeds of dispostiton	22.6	27.1
Net	184.2	63.1

Company Forecast 1998

Production/Pricing	
Gas	230MMcf/d at $1.90 Mcf
Oil/Liquids	3,500 Bbl/d at $21.00/Bbl
Cash flow ($MM)	$100 – $110
Cash flow per share	$1.85 – $2.04
Capital budget ($MM)	$120

Directors and Officers

C. (Clay) H. Riddell
Director, Chairman & President

G.B. (Barry) Padley
Director, Chief Financial Officer and Corporate Secretary

J. (Jim) H.T. Riddell
Corporate Operating Officer

S. (Sue) L. Riddell Rose
Corporate Operating Officer

L. (Laurel) A. Friesen
Assistant Corporate Secretary

J. (Jim) F. Jungé
Director

W. (Wally) B. MacInnes
Director

V. (Vi) S.A. Riddell
Director

J. (John) B. Roy
Director

A. (Alistair) S. Thomson
Director

B. (Bernie) M. Wylie
Director

Paramount Resources Ltd.
4000 First Canadian Centre
350 Seventh Avenue S.W.
Calgary, Alberta T2P 3W5
Telephone: (403) 290-3600
Facsimile: (403) 262-7994

Historical Summary

	1997	1996	1995	1994	1993
Gas production (MMcf/d)	148.6	127.1	135.0	116.1	98.7
Crude Oil & Liquids production (Bbl/d)	1,392	1,517	807	313	161
Gas proven reserves (Bcf)	481.7	345.8	345.3	333.6	323.2
Crude Oil & Liquids proven reserves (Mbbls)	8,386.0	5,574	3,095	1,078	379
Net Earnings ($MM)	$ 23.4	$ 25.5	$ 5.6	$ 11.5	$ 13.0
Cash flow ($MM)	$ 70.9	$ 63.1	$ 35.3	$ 35.2	$ 35.1
CFPS ($/share)	$ 1.42	$ 1.32	$ 0.74	$ 0.74	$ 0.79

CORPORATE INFORMATION

OFFICERS

C. H. Riddell
President

G. B. Padley
Chief Financial Officer
Corporate Secretary

S. L. Riddell Rose
Corporate Operating Officer

J. H. T. Riddell
Corporate Operating Officer

L. A. Friesen
Assistant Corporate Secretary

DIRECTORS

C. H. Riddell[3]
Chairman of the Board
President
Paramount Resources Ltd.

G. B. Padley[1]
Chief Financial Officer
Corporate Secretary
Paramount Resources Ltd.

J. F. Jungé
Chairman of the Board
The Pitcairn Properties Inc.
Jenkintown, Pennsylvania

W. B. MacInnes, Q.C.[1] [2]
Barrister & Solicitor
Partner, Ballem MacInnes
Calgary, Alberta

V. S. A. Riddell
Business Executive
Calgary, Alberta

J. B. Roy[1] [2] [3]
Business Executive
Calgary, Alberta

A. S. Thomson
President
Touche, Thomson & Yeoman
Investment Consultants Ltd.
Vancouver, British Columbia

B. M. Wylie[2] [3]
Business Executive
Calgary, Alberta

(1) Member of Audit Committee
(2) Member of Environmental Committee
(3) Member of Compensation Committee

HEAD OFFICE

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350 Seventh Avenue S.W.
Calgary, Alberta
Canada T2P 3W5

Telephone: (403) 290-3600

Facsimile: (403) 262-7994

CONSULTING ENGINEERS

McDaniel & Associates
Consultants Ltd.
Sproule Associates Limited
Gilbert Laustsen Jung Associates Ltd.
Calgary, Alberta

AUDITORS

Ernst & Young
Calgary, Alberta

BANKERS

Bank of Montreal
Main Branch
Calgary, Alberta

Canadian Imperial Bank
of Commerce
Main Branch
Calgary, Alberta

SOLICITORS

Ballem MacInnes
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

STOCK EXCHANGE LISTING

The Toronto Stock Exchange (POU)

ANNUAL MEETING

Shareholders are cordially invited to attend the Annual Meeting to be held May 14, 1998, at 3:00 p.m. in the McMurray Room at the Calgary Petroleum Club, 319 Fifth Avenue S.W. Calgary, Alberta.

PARAMOUNT'S SHARES are listed on the Toronto Stock Exchange under the symbol 'POU'. At December 31, 1997, there were 53,953,600 common shares issued and outstanding.

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